

SAAC Singapore
Accountancy And Audit
Convention Series

PAIR Conference 2020

GEARING UP TO REBOOT IN A NEW WORLD

For permission to utilise the following materials for education purposes or any other enquiries, please contact ISCA's Technical Division @ technical@isca.org.sg

Organised by





COVID-19 challenges and implications for financial reporting – Accounting for Government relief measures, impairment assessment

Mr Reinhard Klemmer

Chairman, ISCA Financial Reporting Committee

Co-Chairman, ISCA COVID-19 Working Group

Partner, KPMG Singapore

Organised by



Agenda

1. Overview of COVID-19 and its implications



2. Overview of FRC & its key initiatives



3. Financial Reporting Bulletin 5 (FRB 5)



4. Financial Reporting Bulletin 6 (FRB 6)



5. Key takeaways



Organised by

1. Overview of COVID-19 and its implications



Organised by

Global responses to pandemic & economic implications

 **Border closures, travel/movement restrictions**



 **Temporary business closures**



- Collapse of sectors – aviation, tourism, hospitality, conventions
- Rising unemployment rates
- Decreased consumer spending
- Increased probability of default
- Adverse impact on other sectors

Government stimulus packages



- 4 Budgets totaling S\$193B (38% of GDP)
- Employment-related measures include: Jobs Support Scheme, Property Tax Rebate, Enhanced Wage Credit Scheme, Foreign Worker Levy Rebate
- Economic stimulus measures include: Enhanced SME Working Capital Loan, Loan Insurance Scheme



- Financial stimulus packages totaling RM20.6B
- Employment-related measures include: monthly payments to workers
- Economic stimulus measures include: support packages by commercial banks that include emergency loans to SME clients & flexibility of repayments, discount on electricity tariffs for commercial, industrial & agriculture sectors



- Federal government support, fiscal measures totaling A\$259B (13.3% of GDP)
- Employment-related measures include: JobKeeper Program
- Economic stimulus measures include: Changes in drawdown rates for account-based pensions, Federal Government's insolvency-related packages, support for Agribusiness

Financial reporting implications/challenges

Going concern assumption still appropriate?

Are ECLs appropriate?

Are the entity's non-financial assets (carried at cost) overstated & impairment losses required?

Are fair values of IPs overstated?

Is COVID-19 an adjusting event?

How to account for Singapore Government support packages?

Has any contract become onerous?

Internal controls still appropriate?

Covered in next segment by Hans

ISCA, with the support of FRC, has issued guidance to guide profession in dealing with these

FRB 2

FRB 5

FRB 6

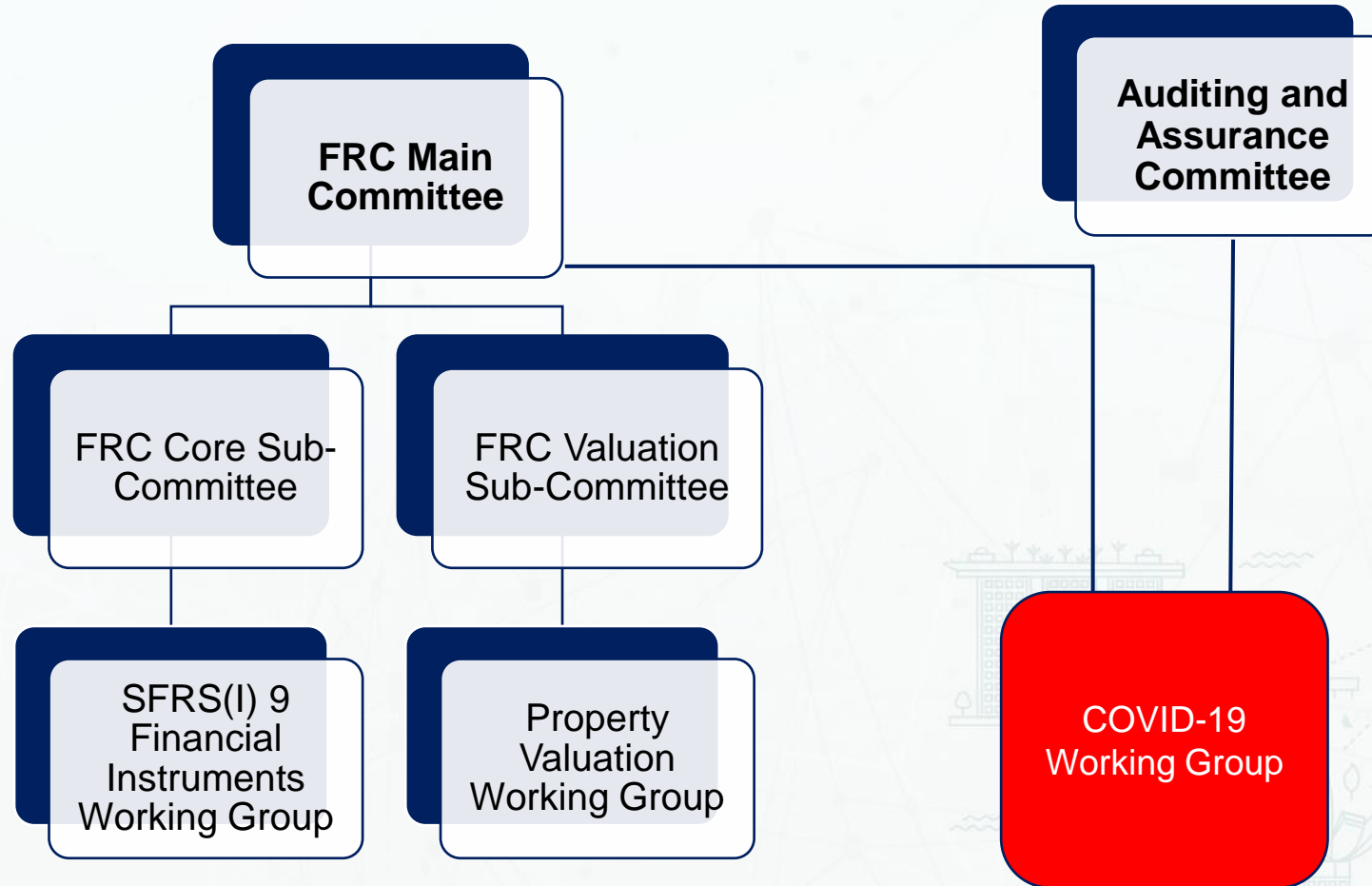
COVID-19 FAQs

2. Overview of FRC & its key initiatives



Organised by

Structure – Financial Reporting Committee (FRC)



Key FRC Initiatives

[Comment letters to IASB & IFRIC](#)

Submissions to IFRIC

Contribution towards global accounting standard-setting process



Issuance of ISCA guidances to address application & implementation challenges

Outreach via seminars and focus groups



[Financial Reporting Guidances](#)

[Financial Reporting Bulletins](#)

[Technical bites](#)

[Practice guidance](#)

ISCA Financial Reporting Codification Framework



AIM

- To formalise the various ISCA financial reporting technical contents within an ISCA Financial Reporting Codification Framework (“Codification Framework”)



WHY

- Provides credence to ISCA technical content, promulgates ISCA’s views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting



WHAT

- Establishes formalised categorisation of all technical contents into 3 categories: (1) Financial Reporting Practice (“FRP”); (2) Financial Reporting Guidance (“FRG”); (3) Financial Reporting Bulletins (“FRB”)
- Establishes degrees of authority and due process for future issuance of technical content by ISCA

ISCA Financial Reporting Codification Framework (cont'd)

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 be followed or explain departures	Public consultation required	ISCA FRC (authority to be 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

Technical guidance issued in 2019/2020

COVID-19 related guidance

[FRB 2 \(issued Mar\)](#)

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

[FRB 5 \(issued Apr\)](#)

Accounting for Singapore property tax rebate from perspective of landlord & tenant

[FRB 6 & FRB 6 \(Revised\)](#) [\(issued May & Jul respectively\)](#)

Accounting for JSS grant

[COVID-19 Technical FAQs](#) [\(issued Apr-Jul\)](#)

Accounting, auditing & PAIB FAQs

Financial Reporting Guidances

[FRG 1 \(issued Nov 2019\)](#)

Real Property Valuation for Financial Reporting – Best practices when engaging valuers: Considerations for Scope of Work (“SOW”) and Valuation Report (“VR”)

[FRG 2 \(issued Mar\)](#)

Accounting for cryptoassets (holder’s perspective)

Educational materials

[FRB 1 \(issued Mar\)](#)

FAQs on application of FRG 1

[FRB 3 \(issued Apr\)](#)

Classification of liabilities as current or non-current

[FRB 4 \(issued Apr\)](#)

FAQs on ISCA Financial Reporting Codification Framework

Past technical guidance

Technical Bites (“Tech Bites”)

SFRS(I) 9

Suite of 5 tech bites on principles to consider performing the SPPI Test

SFRS(I) 15

Tech bite on application of SFRS(I) 15 requirements on costs to fulfil contracts

SFRS(I) 1-1

Tech bite on classification & accounting treatment of amounts due from related parties

SFRS(I) 16

Tech bite on accounting for variable rent leases with JTC

IAS 23

Tech bites on capitalisation of borrowing costs

IFRS Convergence 2018 Implementation Roadmap



Revenue recognition for sale of uncompleted residential properties in Singapore



3. Financial Reporting Bulletin 5 (FRB 5)



Organised by



**Key COVID-19 support package
– Property Tax Rebate for 2020**

**Key questions addressed
in FRB 5**

What is this?

**How should landlords
& tenants account for
the rebate?**

**Why is the
rebate not
accounted
under SFRS(I)
16?**



Organised by

What is this?

- Government has given remission of property tax for qualifying non-residential properties from 1 Jan to 31 Dec 2020 (“property tax rebate”)
- For the portion of non-residential property leased out to tenant, the landlord **must** transfer the benefit from the property tax rebate to the tenant unconditionally

How should landlords & tenants account for the rebate?

- Accounted for under SFRS(I) 1-20
- **Why?**
 - Property tax rebate given independent of commercial terms of individual lease agreements & clearly not intended to modify existing terms of the leases
 - Landlord must pass the benefit to tenant without attaching any condition

Why is the rebate not accounted under SFRS(I) 16?

- Property tax rebate & related rental rebate are in-substance government grants

Accounting by landlord

- When there is **reasonable assurance** that it would comply with grant conditions and grants will be received, landlord can first recognise a grant receivable and a deferred government grant income (if untenanted) / grant payable (if tenanted)
- Recognise grant income and grant expense in P&L on a **systematic basis** over the periods in which the related costs for which the grants are intended to compensate occur
 - May regard the property tax expense (if untenanted) or reduction of rental income as 'related costs'
- Grant expense should be separately presented and disclosed
- Grant income can be presented either:
 - Separately as grant income or under 'other income'; or
 - Deducted in the reporting of grant expense

[Accounting policy choice to be consistently applied]



Illustrative example in FRB 5 includes journal entries to be recorded by landlord

Organised by

Accounting by tenant

- Recognise related rental rebate receivable only when there is **reasonable assurance** it will receive related rental rebates from landlord
- Related rental rebates recognised as grant income over the same periods as the related costs towards which they are intended to compensate
- Grant income can be presented either:
 - As grant income; or
 - Deducted against related expenses (i.e. depreciation of ROU assets or rental expenses if it is a short-term lease)

[Accounting policy choice to be consistently applied]



Illustrative example in FRB 5 includes journal entries to be recorded by tenant

How to account for additional rental rebate (in excess of quantum of property tax rebate)?



Not covered under FRB 5 but the following considerations should be noted:

- Accounted for under SFRS(I) 16 by landlord & tenant
- **Why?**
Does not represent an assistance by the government → does not meet definition of government grant
- Highly likely to be deemed a 'lease modification' under SFRS(I) 16
 - Landlord (assuming operating lease) = account for additional rental rebate on straight-line basis over remaining lease term
 - Tenant = remeasure the lease liability using current discount rate & making corresponding adjustment to ROU asset
- **Practical expedient for lessees**

Practical expedient for lessees (amendments to IFRS 16)

Shortcut?

Shortcut?

- Exempt **lessees** from assessing COVID-19 related rent concessions as lease modifications under IFRS 16
- **Lessees** applying the exemption would account for the changes as if they were not lease modifications but variable lease payments (in the period when the rebate is received)
- **Why?**
Response to feedback that applying the requirements of IFRS 16 on lease modifications to a potentially large volume of COVID-19 related rent concessions could be complex for lessees
- No practical expedient for lessors
 - Because lease modification accounting is not expected to be complicated
- ASC has issued similar amendments to SFRS(I) 16 and FRS 116

4. Financial Reporting Bulletin 6 (FRB 6)



Organised by



Key COVID-19 support package – Jobs Support Scheme (JSS)

Key questions addressed
in FRB 6 & FRB 6
(Revised)*

What is this?

**What is the appropriate
accounting standard to
be used?**

**When & how
should JSS
payouts be
recognised?**

*FRB 6 (Revised) incorporates enhancements made to JSS as announced in the Fortitude Budget on 26 May 2020.

It does not take into account the latest enhancements to JSS as announced in the ministerial statement on 17 August 2020.



Organised by

What is this?

- Purpose of JSS is to provide wage support to employers to help them retain their local employees (Singapore Citizens & PRs) during this period of economic uncertainty
- First announced at Unity Budget and enhanced in subsequent Budgets (see summary in subsequent slide)

What is the appropriate accounting standard to be used?

- Accounted for under SFRS(I) 1-20
- **Why?**
 - Cash grant from the government

When & how should JSS payouts be recognised?

- When there is reasonable assurance that it would comply with grant conditions and grants will be received, entity can recognise a grant receivable
- Recognise grant income over the same periods as the related costs towards which they are intended to compensate
- What are 'Related costs'?
 - The government will co-fund the wages of local employees for 10 months.
 - ISCA's view = 'related costs' are the salary costs incurred by the entity during the 10-month period of economic uncertainty till Jan 2021
 - Judgement is involved in determining the appropriate period
[for most companies, the 10-month period is likely to commence in April; for companies in more affected sectors, the period may commence earlier (but not earlier than date of Unity Budget)]
- Grant income can be presented either:
 - Separately as grant income or under 'other income'; or
 - Deducted against salary costs

Greater transparency



Illustrative example in FRB 6 & FRB 6 (Revised) – aid in understanding principles

Organised by

Summary of JSS & its subsequent enhancements

Unity Budget	Resilience Budget	Solidarity Budget	Fortitude Budget
18 February 2020	26 March 2020	6 April 2020	26 May 2020
Employers will receive an <u>8%</u> cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for <u>3 months computed based on October 2019 to December 2019 monthly wages</u> , subject to a monthly wage cap of <u>\$3,600</u> per employee.	<p>The JSS has been enhanced as follows: Employers will receive a <u>25%*</u> cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for <u>9 months</u> computed based on October 2019 to July 2020 (exclude January 2020) monthly wages, subject to a monthly wage cap of <u>\$4,600</u> per employee.</p> <p>* 75% for companies in the Aviation and Tourism sector; 50% for companies in the Food Services sector.</p>	<p>The JSS payout for wages in <u>April 2020</u> has been increased to <u>75%</u> for all companies.</p> <p>The first tranche of JSS payout is brought forward from May 2020 to April 2020.</p>	<p>The JSS payout for wages in <u>May 2020</u> has been increased to <u>75%</u> for all companies (as previously announced at the Multi-Ministry Taskforce Press Conference on 21 April 2020).</p> <p>The JSS has been enhanced to provide wage support for <u>10 months</u> computed based on October 2019 to August 2020 (exclude January 2020) monthly wages, subject to a monthly wage cap of \$4,600 per employee.</p> <p>As circuit breaker measures are gradually eased, employers not yet allowed to resume operations will continue to receive 75% wage support, during the period for which they are not allowed to resume operations, or until August 2020, whichever is earlier.</p> <p>Refinement of the classification of firms in the different JSS tiers; the level of wage support for firms in sectors that are more severely impacted is increased from the previous 25% to either 75% or 50%.</p>

Illustrative example in FRB 6 seems to be advocating for recognition of JSS grant income on straight-line basis over 10-month period. Is this understanding correct?



COVID-19 Technical FAQ 26

No

- Illustrative example in FRB 6 assumes that the entity has one local employee who is paid a gross monthly wage of \$4,600 from Oct 2019 to Jan 2021
- The grant income recognised by the entity is in line with the level of JSS support from the government for each month (i.e. 75% per month for Apr & May 2020; 25% per month for Jun 2020 to Jan 2021)
- This should not be taken to mean that the grant income is recognised on a 'straight-line' basis for the months of Jun 2020 to Jan 2021

An entity has 50 local employees from Oct 2019 to Aug 2020. In Sep 2020, the entity reduced the no. of local employees to 20 (continues to have 20 employees till Jan 2021).

How would this affect the recognition of JSS grant income from Sep 2020 to Jan 2021?



COVID-19 Technical FAQ 27

On IRAS' webpage on JSS, it is stated that:

“JSS payouts are intended to offset and protect local employees' wages. Employers must act responsibly and fairly, taking reference from the tripartite advisory on salary and leave arrangements during the circuit breaker period. Where there is evidence of irresponsible and unfair treatment, employers may be denied employment support (including JSS) and have their work pass privileges curtailed. Please refer to MOM's advisory on Salary and Leave Arrangements.”

- “Where there is evidence of irresponsible and unfair treatment, employers may be denied employment support (including JSS) and have their work pass privileges curtailed” → employers should treat employees fairly & retain local employees
- Before recognising grant income on a systematic basis, there needs to be **reasonable assurance** that all conditions relating to the JSS are fulfilled
- ISCA's view:
 - May recognise the JSS grant income for the actual staff costs incurred for those months (i.e. based on the staff costs of 20 local employees)
 - Judgement is required to determine whether there is reasonable assurance that the JSS conditions have been satisfied for the 30 local employees who were let go in Sep 2020
- Situation is evolving, there may be new legislation/regulations → entities to continue to monitor developments

5. Key takeaways



Organised by

Key takeaways



Financial reporting implications – members need to continue to monitor the current and potential implications of COVID-19 developments on their financial reporting and ensure appropriate accounting & disclosures

Going concern assumption still appropriate?

Are ECLs appropriate?

Are the entity's non-financial assets (carried at cost) overstated & impairment losses required?

Are fair values of IPs overstated?

Is COVID-19 an adjusting event?

Has any contract become onerous?

Key takeaways



FRB 5, FRB 6 & FRB 6 (Revised), COVID-19 Technical FAQs – members are strongly encouraged to read and apply the guidance shared in relation to:

- the accounting of Property Tax Rebate, Jobs Support Scheme
- financial reporting areas that PAIBs should look out for in the current environment



Keep a lookout for technical guidance issued by ISCA

- members are encouraged to read and apply the guidance
- members are encouraged to provide comments when FRGs are exposed

ISCA will continue to monitor developments and issue technical guidance to support the profession

Organised by