

# 30 June 2020 Financial Reporting: COVID-19 disclosures

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## 1. Introduction

All government entities should consider the impact of COVID-19 on their 30 June 2020 financial statements and Report of Operations. In this document we outline key areas we think may impact entities and the disclosures that are required by the Australian Accounting Standards and any other relevant requirements.

In considering the below, entities should consider what is material<sup>1</sup> to the entity and, assess whether and what disclosures are needed to meet user needs. An impact could be material if:

- the financial impact is material; or
- users will reasonably expect COVID-19 to impact the entity, regardless of whether the quantitative impact is material.

In making this assessment entities should consider the impact COVID-19 has had on parties they transact with and whether there will be a flow-on impact (e.g. reduction in customer spending and therefore, reduced revenue for the entity; lessees inability to pay rent and potential rent concessions that will be provided by the entity as lessor; financial impact on suppliers).

We also want to highlight that what is included in this document is not exhaustive. Entities should consider the entity specific facts and circumstances about the impact of COVID-19 and whether any other areas are relevant.

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<sup>1</sup> Making Materiality Judgements (AASB Practice Statement 2) may assist entities in assessing whether impacts are material.

Where entities consider disclosures are required, discussions should be had with auditors. Entities should also prepare for discussions about areas they consider not to have a material impact. Documentation should be prepared that includes relevant facts and the basis for decisions made.

## 2. Presentation of financial statements

Generally, AASB 101 *Presentation of Financial Statements* requires disclosures about significant judgements and estimates:

- for judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements [AASB 101.122]. Disclosures should include information about why the judgement was made, why it is significant and how the entity reached the conclusion it did. It should be specific and tailored to the entity's specific circumstances.
- about assumptions made about the future and other major estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year [AASB 101.125]. Disclosures should include information about the nature of the uncertainty, assumptions made about the future, the carrying amount of affected assets/liabilities and may require disclosure of sensitivity analysis/ranges of possible outcomes.

Further AASB 101 also requires:

- presentation that faithfully represents the effects of transactions, other events and conditions in accordance with accounting standard requirements. Additional disclosure is necessary where it results in fair presentation [AASB 101.15].
- entities to consider whether to provide additional disclosure when compliance with AASB requirements are insufficient to enable users to understand the impact of particular transactions or other events/conditions [AASB 101.31].
- disclosure of information in the notes where it is not presented elsewhere in the financial statements but is relevant to understanding any of them [AASB 101.112(c)].

Disclosures should include enough information so that the user can understand the key assumptions and judgements, the estimates made, and any associated uncertainty.

Although additional disclosures may be required to faithfully represent the impact of Covid-19 on an entity, the level of disclosure required will be based on specific circumstances and judgement is required to determine this.

## 3. Changes in estimates

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires disclosure of the nature and amount of a change in accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect. When impracticable the financial statements should include such a statement [AASB 108.39-40]. Where estimates have changed because of the impact of Covid-19, entities should comply with these requirements.

The above requirements should be considered for the areas listed in the following section, in addition to any specific requirements as set out in that section.

## 4. Specific areas

Below we outline specific areas and the disclosures required by the relevant accounting standard(s) and that might be considered in the context of COVID-19:

Area	Relevant AASBs/Guidance <sup>2</sup>
<p><b>Asset impairment/changes in assumptions for impairment testing (AASB 136)</b></p> <p>Entities should consider whether Covid-19 has had or will have an impact on an entity's non-financial assets (e.g. PPE, intangible assets) that are within the scope of AASB 136 and whether impairment indicators exist.<sup>3</sup></p> <p>It is expected that this will be considered as part of an entity's usual impairment review processes. It will require review of the cash flows and assumptions management have used to measure the value of assets.</p> <p>Depending on the impairment assessment the following disclosures may be required:</p> <ul style="list-style-type: none"> <li>• Where an impairment loss is recognised an entity will need to disclose information about the events and circumstances that led to the recognition of the loss [AASB 136.130(a)]. It will also include but is not limited to: <ul style="list-style-type: none"> <li>○ Level of fair value hierarchy applied, and a description of the valuation techniques and key assumptions used to determine the fair value for Level 2/3 categories. Entities should also consider the disclosure objective and requirements of AASB 13 [AASB 136.130(f)];</li> <li>○ Amount of impairment losses recognised [AASB 136.130(b)];</li> <li>○ Description of the assets (or cash-generating unit) and their recoverable amount [AASB 136.130(c)-(d)]; and</li> <li>○ If the recoverable amount of the assets is its value in use, the discount rates used [AASB 136.130(g)].</li> </ul> </li> <li>• Significant judgements, and key assumptions and estimates made in relation to the carrying amount of assets [AASB 101]. For example, Covid-19 impact on factors used to generate future cash flows. A description of management's approach to determining the value of assets should be disclosed including the assumptions of the duration and</li> </ul>	<p>AASB 136.12-14&amp;130-135.</p> <p>AASB 101.15,31,112(c),122&amp;125.</p> <p>AASB 108.39-40.</p> <p>FRD 103H <i>Non-financial physical assets.</i></p> <p>FRD 106B <i>Impairment of assets.</i></p> <p>Guidance</p> <p><a href="https://www.aasb.gov.au/admin/file/content102/c3/FAQ_ImpairmentOfNonFinancialAssets_07-20%20(002).pdf">https://www.aasb.gov.au/admin/file/content102/c3/FAQ_ImpairmentOfNonFinancialAssets_07-20%20(002).pdf</a></p>

<sup>2</sup> Note: The AASB paragraphs listed relate to the disclosure requirements of the relevant standard and other paragraphs considered most relevant to the area discussed. Entities should ensure compliance with all requirements of the relevant standard(s).

The links to guidance are not exhaustive and there are a number of other resources available on AASB website: <https://www.aasb.gov.au/Hot-Topics/COVID-19-Guidance.aspx>. More guidance, relevant to an entity's specific facts and circumstances, may also be found by conducting further research of other publicly available information.

<sup>3</sup> AASB 136.Aus5.1: For Not-for-Profit entities with assets that are not held primarily for their ability to generate net cash inflows and instead held for continuing use of their service capacity and are revalued, AASB 136 does not apply. For these assets, the 'Change in fair value of assets (AASB 13)' section should be considered.

intensity of the impact of Covid-19 on the asset.

- It will also include information about differences between assumptions previously used and may include a sensitivity analysis where the assumptions and estimates used are subject to change depending on actual outcomes [AASB 101&108].
- Where there's major sources of estimation uncertainty this information should also be included. This may require inclusion of a sensitivity analysis in the financial statements that includes details of different possibilities [AASB 101].

Disclosures should include details of the information available at the time and demonstrate why the estimates and judgements management have used/made are reasonable and supportable. The uncertainty associated with the estimates and judgements should also be made clear.

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#### Change in fair value of assets (AASB 13)

AASB 13.91-99.

Entities should consider whether the value any of its assets or liabilities measured at fair value have changed due to Covid-19. Asset values may need to be remeasured as a result.

AASB  
101.15,31,112(c),122&125.

To comply with the requirements of AASB 13, disclosures required include but are not limited to:

- Techniques and inputs used to measure the asset/liability [AASB 13.91(a)].
- Reasons for the measurement [AASB 13.93(a)].

AASB 108.39-40.

FRD 103H *Non-financial  
physical assets.*

Entities are required to use judgement to determine the level of detail needed to meet the requirements of AASB 13 and assess whether additional qualitative disclosures are required for users to understand quantitative information [AASB 13.92].

FRD 107B *Investment  
properties.*

Qualitative disclosures that need to be considered are:

- Any significant judgements made in connection with the measurement basis of property, plant and equipment (for instance, if reliance is placed on land indices, then disclosure is required about the uncertainties inherent in the land indices in the COVID-19 environment);
- Any significant uncertainties associated with formal valuations noted by valuers, should also be brought to the attention of the reader of the financial statements.

FRD 114C *Financial  
instruments.*

Entities should consider AASB 101 and AASB 108, and disclose any significant judgements, estimates and assumptions required by these standards.

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#### Net realisable value of inventory (AASB 102)

AASB  
101.15,31,112(c),122&125.

Entities may be required to write-down inventories to net realisable value because of reduced movement in inventory or other reduced factors. Any write-down should be recognised as an expense and disclosed [AASB 102.36(e)&Aus36.1(e)].

AASB 102.36-39.

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Any key judgements, assumptions and estimates that an entity makes should be disclosed.

AASB 108.39-40.

**Increased costs and/or reduced demand requiring provisions for onerous contracts (AASB 137)**

AASB

137.36-39,42-44,48-50, 84-92.

Covid-19 may cause contracts to become onerous and where this is the case a provision should be recognised for this. This could relate to contracts with customers or increased costs due to supply chain issues.

AASB

101.15,31,112(c),122&125.

AASB 137 requires entities to be calculated based on the best estimate of the expenditure required to settle the provision, taking into account the risks and uncertainties related to the provision and future events that may affect the amount of the provision [AASB 137.36].

AASB 108.39-40.

Disclosure requirements of AASB 137 include information about:

- Additional provisions made in the period [AASB 137.84(b)];
- The nature of the obligation, an indication of the uncertainties of the provision including major assumptions made concerning future events [AASB 137.85].

Significant judgements, estimates and assumptions should also be disclosed as required by AASB 101 and AASB 108.

**Changes in expected credit losses for loans and other financial assets (AASB 9)**

AASB 7.31-38.

The effects of Covid-19 may result in an increased risk of debtors defaulting. Entities should consider how this risk may affect the financial assets (e.g. bonds, debentures, loans, lease receivables, trade receivables, contract assets, etc.) that they have and adjust expected credit losses accordingly. Assumptions based on historical performance may not be indicative of the future because of Covid-19.

AASB

101.15,31,112(c),122&125.

AASB 108.39-40.

Disclosures should give users enough information so that they can evaluate the nature and extent of risks arising. Disclosures should meet the requirements of AASB 7. For government entities who have trade receivables, lease receivables<sup>4</sup> and statutory receivables, and apply the simplified approach (as mandated in FRD 114C), the provision matrix used by them may need to be revised to reflect current conditions and estimates of future economic conditions with regard to the Covid-19 specific impact anticipated on the entity's receivables.

FRD

114C

*instruments.*

*Financial*

When significant judgements and estimates have been made these should be disclosed, including changes in comparison to previous significant judgements and estimates [AASB 101&108].

Disclosures should include details of the information available at the time and demonstrate why the estimates and judgements management have used/made are reasonable and supportable. The uncertainty associated with the estimates and judgements

<sup>4</sup> Also refer to 'Leases' section below.

should also be made clear, including sensitivity of these to change [AASB 101&108].

## Leases

### Lessees

The AASB has granted lessees a practical expedient that allows a lessee not to assess whether rent concessions that occur as a direct consequence of Covid-19 and meet specific conditions are lease modifications. Instead, lessees are allowed to treat rent concessions as if they were not lease modification.

Where a lessee uses this practical expedient a lessee should disclose, as required by AASB 2020-4 [AASB 2020-4.60A]:

- where it has applied the practical expedient for all rent concessions;
- if it has not applied it to all rent concessions received, information needs to be disclosed about the nature of the contracts to which the practical expedient has been applied; and
- the amount recognised in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions and applying the practical expedient.

Lessees should also consider the disclosure objective of AASB 16 to provide information to users about the effect that leases have on the financial position, financial performance and cash flows of the lessee. The standard also requires additional qualitative and quantitative information to be disclosed to meet the disclosure objective as required. This includes information such as the nature of the lessee's leasing activities and future cash outflows. Entities should consider whether additional disclosures are required to meet the disclosure objective of AASB 16 [AASB 16.51&59].

### Lessors

No practical expedient has been granted to lessors for rent concessions granted and therefore the requirements of AASB 16 apply. If the effect of the rent concessions granted, changes the overall effect of the consideration for the lease, this meets the definition of a lease modification.

#### Other considerations:

- lessors may need to consider whether the lease receivable is impaired where there is no rent concession agreement in place at 30 June and rent remains outstanding. In this case a provision for expected credit losses<sup>5</sup> should be recognised against the lease receivable for any unpaid rent.
- lessees may need to consider whether the right-of-use asset

### Lessees

AASB 2020-4.60A.

AASB 16.51&59.

AASB

101.15,31,112(c),122&125.

AASB 108.39-40.

### Lessors

Finance lease modifications:

AASB 16.79-80&89-93.

Operating lease modifications:

AASB 16.87, 89-92&95-97.

AASB 108.39-40.

### Guidance

<https://cdn.ifrs.org/-/media/feature/supporting-implementation/ifrs-16/ifrs-16-rent-concession-educational-material.pdf?la=en>

<https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/covid-19-implications-for-financial-reporting-and-audit-frequently-asked-questions-faqs/>

<sup>5</sup> Refer to 'Changes in expected credit losses for loans and other financial assets (AASB 9)' section above.

is impaired.

This should be considered based on the rent concession provided and entity specific circumstances.

### Government Grant

[AASB 120.39.](#)

Entities may have received financial support from Government. This may include wage subsidies, fee waivers, loan forgiveness, rent concessions, tax benefits and/or cash payments.

[AASB 1058.23-41.](#)

The AASB has issued guidance (refer to link) that considers the accounting standard requirements, depending on the type of entity and what support has been provided. The flowcharts will assist entities in working through the requirements.

[AASB 101.15,31,112\(c\),122&125.](#)

Generally, this type of support will fall within AASB 120 *Accounting for Government Grants* (for-profit) or AASB 1058 *Income of Not-for-Profit Entities* however other standards may be applicable. The attached guidance includes these.

[AASB 108.39-40.](#)

AASB 120 requires disclosure of [\[AASB 120.39\]](#):

*Guidance*

- the accounting policy adopted for government grants;
- the nature and extent of government grants; and
- unfulfilled conditions and other contingencies that have been recognised (if relevant).

[https://www.aasb.gov.au/admin/file/content102/c3/Staff\\_FAQs\\_Gov\\_Grants\\_07\\_20\\_1594699835648.pdf](https://www.aasb.gov.au/admin/file/content102/c3/Staff_FAQs_Gov_Grants_07_20_1594699835648.pdf)

The disclosure objective of AASB 1058 is for an entity to disclose sufficient information to enable users to understand the effects of the transaction, where an entity acquires an asset for consideration that is significantly less than fair value principally to enable the entity to further its objectives [\[AASB 1058.23\]](#).

Entities should use judgement to determine the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on the various requirements [\[AASB 1058.24\]](#).

Significant judgements, estimates and assumptions should also be disclosed as required by AASB 101 and AASB 108.

### Going concern

Entities are required to consider all available information specific to the entity about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

[AASB 110.14-16.](#)

[AASB 101.15, 25-26,31,112\(c\),122&125.](#)

Where there are material uncertainties about the entity's ability to continue as a going concern, these uncertainties need to be disclosed. This may include details of how and when uncertainties may resolve and possibilities that may occur [\[AASB 101.25 & AASB 110.16\]](#).

[AASB 108.39-40.](#)

*Guidance*

Details of why it is still considered to be a going concern should also be included. Significant judgements and estimates should be disclosed.

[https://www.aasb.gov.au/admin/file/content102/c3/AASB-AUASB\\_TheImpactOfCOVID19\\_05-19.pdf](https://www.aasb.gov.au/admin/file/content102/c3/AASB-AUASB_TheImpactOfCOVID19_05-19.pdf)

Where significant judgements are made in determining that there are no material uncertainties, these should be disclosed

[AASB 101].

**Events after the reporting period (AASB 110)**

*Adjusting event*

This should be considered for all areas of the financial statements, including the areas outlined above.

[AASB 110.8-11; 19-20](#)

*Adjusting event*

*Non-adjusting event*

Entities should consider whether there any events after the reporting period that confirms conditions that existed before 30 June 2020? E.g.

[AASB 110.10-11; 21-22.](#)

- impairment of an asset or no impairment at year end.
- confirmation of bankruptcy of a customer causing a receivable to be credit impaired.

[AASB 101.15,31,112\(c\),122&125.](#)

If so, this should be treated as an adjusting event and financial statement figures should be adjusted accordingly.

[AASB 108.39-40.](#)

Disclosures should be updated to include the updated information. Entities should ensure that disclosure requirements of the relevant standard(s) are met, including AASB 101 (refer above for specific requirements).

*Non-adjusting event*

If there is a material non-adjusting event, disclosure should include information about [\[AASB 110.21\]](#):

- the nature of the event; and
- a quantitative estimate of its financial effect, which may include a range of estimates; or
- if a quantitative estimate is not possible, a qualitative description of the event and a statement that such an estimate cannot be made.

Information about significant judgements, estimates and uncertainty should be included as required by AASB 101, as required.

## 5. Report of Operations

Entities should consider how the information presented in their Report of Operations should be tailored to ensure that the impact of Covid-19 is adequately reported and consistent with the disclosures in their financial statements.