Educational material 1

APPLICATION OF IFRS STANDARDS IN LIGHT OF THE CORONAVIRUS DISEASE (COVID-19) UNCERTAINTY

Events after the Reporting Period

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Paragraph

1. Introduction

This educational material issued by SAICA's Accounting Practices Committee (APC) is prepared for educational purposes, highlighting the requirements within IFRS that are relevant for entities considering how the pandemic affects their accounting, for financial periods ending on or after 31 December 2019.

Entities are reminded to consider the impact of events related to COVID-19 on both interim and annual financial statements.

This guidance does not change, remove nor add to, the requirements in IFRS. It is intended to support the sound, consistent and robust application of requirements in IFRS. It is of importance that IFRS is applied consistently on the basis of the most robust reasonable and supportable assumptions in the current environment.

2. Application of IAS 10 - *Events after the Reporting Period*

"Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue" (IAS 10 paragraph 3).

Adjusting events after the reporting period are "those that provide evidence of conditions that existed at the end of the reporting period" (IAS 10 paragraph 3(a)).

Non-adjusting events after the reporting period are "those that are indicative of conditions that arose after the reporting period" (IAS 10 paragraph 3(b)).

An entity shall adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting period (IAS 10 paragraph 8). An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period (IAS 10 paragraph 10).

The timeline of the specific South African events are available on the National Institute of Communicable Diseases (NICD) website: https://www.nicd.ac.za/media/alerts/

The timeline of global events is available on the World Health Organisation (WHO) website: https://www.who.int/emergencies/diseases/novel-coronavirus-2019/events-as-they-happen.

The timelines indicate a series of events that have taken place relating to COVID-19 and the issue arises as to which point in time (specifically year end) is the condition (as envisaged in IAS 10 paragraph 3 (a)) considered to exist. The point in time that the condition is considered to exist is important as that will determine whether events after the reporting period are adjusting or non-adjusting events. This educational material hereon refers to specific South African events and is therefore South African specific. The approach may be useful to multinational entities, entities operating in other jurisdictions or those group entities where the location of customers and suppliers are based in countries outside of South Africa where the economic impact was already evident, in which case, it could be considered an adjusting event for these group entities.

2.1 December 2019 year end

For reporting periods ending on 31 December 2019, any effects of events related to the COVID-19 outbreak on the financial statements of a reporting entity are the result of conditions that arose after the reporting date, which is therefore a non-adjusting event after the reporting period. This is because there is general consensus that the COVID-19 conditions did not exist in South Africa on 31 December 2019. Although the virus became known on 31 December 2019, the virus itself is not considered to be the condition envisaged in IAS 10 paragraph 3(a) as it did not give rise to economic consequences yet.

An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period (IAS 10 paragraph 10). If the non-adjusting event is material, an entity shall provide disclosure of the nature of the event and the estimate of its financial effect, or a statement that such estimate cannot be made (IAS 10 paragraph 21).

Where an estimate of the financial effect on the entity can be made, this should be disclosed. Otherwise the fact that the financial effect cannot be estimated should be disclosed (IAS 10 paragraph 21). In SAICA's view, the estimate does not need to be exact – a range of estimated effects is more informative than no quantitative information at all. Good disclosure would entail providing insight of how the estimate or range of estimates were determined. In the absence of any quantitative estimate, a qualitative description of the effect should be provided. In addition, we would also recommend expanded sensitivity analysis on key assumptions/estimates to be taken into account in the measurement of material balances at reporting date. The following is a non-exhaustive list of areas where this may be applicable:

- Deferred tax asset recovery
- Impairments (financial and non-financial assets)
- Investment properties
- Inventory
- Onerous contracts
- Leases

2.2 March 2020-year end

The situation at the 31 March 2020-year end differs significantly from that of the 31 December 2019 year end. Key events had taken place since:

- 30 January 2020: WHO announces COVID-19 as a Public Health Emergency of International Concern.
- 5 March 2020: First positive COVID-19 case is announced in South Africa.
- 6 March 2020 onwards: Number of confirmed COVID-19 cases increase.
- 11 March 2020: WHO declares COVID-19 as a pandemic.
- 15 March 2020: South Africa declares a national state of disaster with a partial travel ban, closing of schools and prohibiting gatherings of more than 100 people.
- 23 March 2020: South Africa declares a national lockdown of 21 days from 26 March 2020 to 16 April 2020.

Prior to 15 March 2020, the virus, being a health crisis, is not necessarily considered to be an economic crisis within South Africa. Following the declaration of a national state of disaster on 15 March 2020, the virus gives rise to economic consequences. Therefore, at 31 March 2020, it is evident that the COVID-19 conditions in South Africa exist at that date.

Therefore, for financial reporting periods ending on or after 31 March 2020, events after 31 March related to COVID-19 would generally be adjusting events after the reporting period and would require the assets and liabilities to be adjusted to take into effect any accounting implications associated with or caused by events related to COVID-19. However, individual facts and circumstances will need to be assessed.

2.3 January 2020 and February 2020 year ends

Prior to 15 March 2020, the virus, being a health crisis, is not necessarily considered to be an economic crisis within South Africa. Following South Africa’s declaration of a national state of disaster on 15 March 2020, the virus gives rise to economic consequences. However, on 30 January 2020, the WHO announced COVID-19 as a Public Health Emergency of International Concern which may well have resulted in economic consequences in other jurisdictions. Therefore, entities (especially those operating in multiple jurisdictions) will need to consider all relevant facts and circumstances in making their assessment whether conditions existed at 31 January 2020 or 29 February 2020.

The evaluation of whether the conditions existed at a particular reporting period date is a matter of facts and circumstances specific to the entity. In reaching this judgement, entities will need to focus on the importance of the events at the reporting period date. Do the events give sufficient evidence that the conditions existed for the entity at that date? If the judgement had a significant effect on the amounts in the financial statements, then this judgement should be disclosed and explained in terms of IAS 1 paragraph 122.

Entities will be impacted differently by the various COVID-19 events. When assessing the relevance and impact of COVID-19 events on the entity, the following are examples of factors that could be considered:

- The nature of the entity's operations;
- The economic consequences of COVID-19 on current markets of the entity;
- The impact of COVID-19 on the entity's facilities; and
- International geographies the entity is exposed to both from a supply chain and sales perspective and the impact of COVID-19 on those locations.

Examples of how facts and circumstances could be applied are the following:

- For a South African business that is relatively shielded from international events during January and February 2020, with localised supply chains and target market, an argument could possibly be made that events taking place from 5 March 2020 to date, in South Africa, did not indicate that specific conditions existed at 29 February 2020.

- For a multinational business with a South African footprint or a South African company that is dependent on foreign markets (e.g. imports or exports), events could confirm conditions that existed during January and February 2020, depending on the other jurisdictions where the entity operates.

2.4 Going concern

An exception to the above considerations would be matters relating to the going concern assumption. An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so (IAS 10 paragraph 14). Read together with IAS 10 paragraph 14, this going concern assessment needs to be performed up to the date on which the financial statements are issued taking into account the economic consequences that exist at signing date and not only reporting date.

Refer to Education Material 2 for further detail on the Going Concern Assumption.