

11 May 2020

## Covid-19 impacts on financial statements

All financial report preparers will need to consider the impact of COVID-19 on their financial statements for the 30 June 2020 year end. COVID-19 is likely to give rise to new and rapidly changing conditions that preparers of financial statements may not have previously encountered. We encourage those responsible for the preparation and approval of financial statements to engage with us at an early stage of the financial reporting and audit process to discuss and assess the impact of COVID-19.

Potential impacts on financial statements include:

- Disclosures about the use of judgements and estimation uncertainty.
- Measurement of expected credit losses.
- Revenue recognition for contracts with customers involving variable consideration.
- Impact on fair value measurement of assets and liabilities as well as the financial disclosures.
- Impact of the economic support and relief measures on recognised financial instruments and their conditions.
- Disclosures regarding impact of COVID-19 on fair value measurements.
- Asset impairment or changes in assumptions for impairment testing.
- Impacts of legislative changes regarding income tax concessions and other rebates on accounting for income taxes.
- Realisation of deferred tax assets.
- Insurance recoveries related to business interruptions.
- Breaches of debt covenants.
- Classification of current/non-current liabilities, e.g. debt waivers.
- Restructuring provisions.
- Increased costs and or reduced demand requiring provisions for onerous contracts.

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- Modification of contractual arrangements e.g. reduction or deferral of lease payments granted by a lessor to a lessee.
- Derivative and hedging considerations where the expected transaction is no longer highly probable or expected to occur.
- Revised liquidity risk management and disclosure in the financial statements.
- Disclosure of the going-concern assumption is subject to material uncertainties.
- Effect of the net realisable value of inventories.
- Potential legal disputes.
- Existence of significant events after the balance date.
- Increased disclosures in the financial statements.

To assist preparers of financial statements understand the impact of COVID-19 on financial statement the Australian Accounting Standards Board (AASB) has produced a joint publication with the Auditing and Assurance Standards Board titled *The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations* which is available from the AASB's Coronavirus (COVID-19) Guidance resources page which can be found here:

<https://www.aasb.gov.au/Hot-Topics/COVID-19-Guidance.aspx>

The resources page also provides links to relevant publications, including those from other Australian regulators, professional bodies and accounting firms, to support entities prepare their financial reports during and as a result of the COVID-19 outbreak.