



# Insights

by Capital Markets & Accounting Advisory Services (CMAAS)

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## Examples for reporting the impact of COVID-19 on going concern and subsequent events in financial statements

### At a glance:

The coronavirus (COVID-19) pandemic has developed rapidly in 2020, with a significant number of cases globally. Measures taken to contain the virus have significantly affected economic activity, which in turn has implications for financial reporting.

Entities should consider whether developments (including those events subsequent to the reporting date) have any implications for the going concern assumption.

We expect that most entities will disclose information about the impact of COVID-19 in the financial statements. The detail and location of such disclosure should depend on the extent to which the entity is affected.

This publication considers the impact of COVID-19 on disclosures relating to going concern and subsequent events in financial statements, providing illustrative disclosures and examples of multiple scenarios.



## 1. Introduction

The impact of COVID-19 has been an evolving situation since late 2019. Given the information available at 31 December 2019, COVID-19 would be unlikely to have had a material effect on the measurement of assets and liabilities at that date.

Since then, both the impact of the virus and the information available about that impact have changed. The World Health Organisation declared a global health emergency in January 2020 and in March 2020, it declared the spread of COVID-19 as a global pandemic. Consequently, entities with a reporting date after 31 December 2019 should consider the impact of COVID-19 on the measurement of assets and liabilities, the recognition of gains and losses, the potential impact on going concern, and the related disclosures.

Entities with reporting dates at 31 December 2019 or before for which the financial statements are not yet issued should also consider the implications of the latest developments for going concern and for disclosures.



## 1. Introduction

### What's inside this publication?

This publication considers the impact of coronavirus ('COVID-19' or 'the virus') on disclosures relating to going concern and subsequent events in financial statements. Multiple scenarios might exist about the potential impact of COVID-19 on the entity such as:

#### **Scenario 1: Going concern with material uncertainties**

There are material uncertainties related to events or conditions (the consequences of COVID-19) that may cast significant doubt upon the entity's ability to continue as a going concern. The consequences of COVID-19 might combine with other events or conditions to create a material uncertainty.

#### **Scenario 2: Going concern without material uncertainties**

Management has considered the consequences of COVID-19 and other events and conditions, and it has determined that they do not create a material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern.

The impact of COVID-19 on future performance and therefore on the measurement of some assets and liabilities or on liquidity might be significant and might therefore require disclosure in the financial statements, but management has determined that they do not create a material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern.

#### **Scenario 3: Going concern without material uncertainties**

COVID-19 is not expected to have a significant impact on the entity. Management has determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. It expects that COVID-19 might have some impact, though not significant, for example, in relation to expected future performance, or the effects on some future asset valuations.

#### **Scenario 4: Non-going concern**

The going concern basis of preparation is no longer appropriate. Management intends to liquidate the entity, cease trading or has no realistic alternative but to do so. MFRS 101 "Presentation of Financial Statements" permits an entity that is no longer a going concern to prepare financial statements on a different basis but still in accordance with MFRS.

#### **Disclosures**

We expect that entities will disclose information about the impact of COVID-19 in the financial statements. The detail and location of such disclosure should depend on the extent to which the entity is affected. Some entities might choose to provide all of the disclosures related to COVID-19 in the same note, while others might make the disclosures in the areas of the financial statements that are affected – for example, financial and non-financial asset impairment, financial instruments, capital management and, in connection with scenario 4 above, the basis of preparation.



## 1. Introduction

### What's inside this publication? (continued)

This publication addresses the disclosures that an entity should consider in connection with:

- going concern and liquidity risk (Section 2);
  - [Material uncertainty about the entity's ability to continue as a going concern \( Scenario 1 \)](#)
  - [Impact of COVID-19 might be that significant uncertainty exists but not material uncertainty \(Scenario 2\) and COVID-19 is expected to have some impact, but this is not expected to be significant \( Scenario 3 \);](#) and
- [subsequent events \( Section 3 \)](#)

Although the focus of each disclosure requirement is different, it is important that there is consistency between the going concern and the subsequent events disclosures and all of the other COVID-19 related disclosures in the financial statements.

The remainder of this publication summarises the relevant guidance under MFRS and provides examples of the related disclosure. The guidance and examples are designed to provide an understanding of the requirements and type of information to be provided. They should be tailored to an entity's specific situation.



## 2. Going concern disclosure

The financial statements should not be prepared on a going concern basis where events after the reporting date indicate that the going concern assumption is no longer appropriate [para 14 of MFRS 110 "Events After the Reporting Period". This includes subsequent events which may cast significant doubt upon the entity's ability to continue as a going concern [para 25 of MFRS 101].

If management concludes that the going concern basis is appropriate, but it is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, it should disclose:

- those uncertainties;
- management's plans to deal with these events or conditions; and
- that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it might be unable to realise its assets and discharge its liabilities in the normal course of business.

For some entities, the consequences of the COVID-19 pandemic might qualify as such an event or condition.



## 2. Going concern disclosure (continued)

Entities might consider the following factors when disclosing a material uncertainty that casts significant doubt on an entity's ability to continue as a going concern:

- ***Be as specific as possible about how the entity is affected.*** The entity should disclose the consequences of the current situation with regard to, for example, revenue (declining markets, significant drop in demand in major markets); customers (impact of effects of COVID-19 on customers); suppliers (a production process that largely depends on the supply of goods from a specific area); employees (consequences of possible lockdowns for productivity); liquidity, including the continued availability of funding and credit facilities and the short and/or longer-term uncertainty arising from these factors regarding the entity's ability to continue as a going concern in the foreseeable future.
- ***Be complete.*** If factors in addition to COVID-19 cast significant doubt upon the entity's ability to continue as a going concern (that is, without COVID-19 such doubt would exist), the entity should also disclose those other factors, however, the disclosure should not attribute liquidity or business challenges that exist independently of the virus to COVID 19.
- ***Expect the unexpected.*** In addition to specific disclosures about how the entity's ability to continue as a going concern is affected by the implications of COVID-19 and government measures that are currently known, an entity should also consider disclosing that this is an uncertain situation, so things might change and how that would affect the entity.
- ***Describe mitigating actions.*** In addition to a description of the uncertainties, an entity should also consider disclosing the measures that it is taking to mitigate the possible negative impacts of the COVID-19 pandemic.
- Consider the specific disclosure requirements of relevant regulators.
- Conclude with a statement that management has determined that the use of the going concern assumption is warranted.

Disclosure of a material uncertainty that casts significant doubt upon an entity's ability to continue as a going concern is not sufficient if management is aware that the entity has 'no realistic alternative' but to cease its activities. In such a situation, the entity can no longer prepare the financial statements on a going concern basis.

The information provided in the material uncertainty disclosures might differ between entities depending on the situation that applies to the entity.

Even if management has determined that the COVID-19 pandemic has not created a material uncertainty that casts doubt on the entity's ability to continue as a going concern, that in itself, might be material information for users of the financial statements . Therefore, we expect that most entities will include a paragraph about how the COVID-19 pandemic affects the entity's liquidity in accordance with MFRS 101 and MFRS 7 "Financial Instruments: Disclosures". The factors described above should also be considered by management to develop this disclosure.



## 2. Going concern disclosure (continued)

### Scenario 1 (Material uncertainty about the entity's ability to continue as a going concern)

The following factors should be considered in developing the disclosure in scenario 1, and they should be tailored to the entity's circumstances:

#### *Introduction – description of the conditions, circumstances and developments resulting from COVID-19*

Describe the circumstances that the entity is facing and which may cast significant doubt upon the entity's ability to continue as a going concern resulting from COVID-19 – considering the measures and plans issued by governments.

Disclose the consequences of the current situation both operationally and financially (see general guidelines above for examples).

The disclosure should not be limited to COVID-19 if there are other events and conditions that contribute to the uncertainty regarding going concern.

The disclosure should be clear that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that the entity might be unable to realise its assets and discharge its liabilities in the normal course of business. In addition to specific disclosures about how the entity's ability to continue as a going concern is affected by the implications of COVID-19 and government measures that are currently known, an entity should explain that there are uncertainties about how things might change and how that would affect the entity.

#### *Description of the measures taken to warrant going concern*

In this section, the entity describes the plans and measures that management has taken or will take to deal with the impact of the events/circumstances and uncertainties described above arising as a result of COVID-19 and other conditions that impact going concern. This section therefore provides the basis for the board's conclusion that there is a material uncertainty that may cast significant doubt upon the entity's ability to continue as a going concern, but that the going concern assumption is still appropriate.

Examples of plans and measures might include:

- the use of facilities made available by the government to the entity;
- plans to raise capital;
- negotiations with lenders to confirm the continuing availability of existing undrawn facilities or to source new facilities;
- waivers of post year end covenant breaches and forecast breaches;
- seeking payment holidays on borrowings;
- seeking rent relief from landlords; and
- actions taken to manage cash flow (for example, pivoting production to new products, such as, medical supplies, temporarily closing retail stores, ceasing production and redundancies).

#### *Closing*

The entity should conclude the going concern paragraph with a statement that it has determined that the use of the going concern assumption is warranted. For example, " *Based on the circumstances described above, the financial statements are prepared on the assumption that the entity is a going concern.*"



## 2. Going concern disclosure (continued)

### Scenario 1 (Material uncertainty about the entity's ability to continue as a going concern) (continued)

The following example illustrates the going concern disclosure for an entity whose management has concluded that there is a material uncertainty about the entity's ability to continue as a going concern which specifically relates to the impact of COVID-19 (and not due to other factors) – it should be tailored to an entity's specific circumstances.

#### **Example (scenario 1)**

##### *The entity's ability to continue as a going concern – COVID-19*

The COVID-19 pandemic has developed rapidly in 2020. The resulting impact of the virus on the operations and measures taken by various governments to contain the virus have negatively affected the group's results in the reporting period. The currently known impacts of COVID-19 on the group are:

- A decline in revenues for the first x months of 20[20] compared with the same period in 20[19] of x%.
- Impairments of receivables and inventories, [XXX] and [XXX] in the first x months of 20[20] amounting to LC XX million in total.
- Closure of the group's production facilities/sales locations in [INSERT LOCATION] until at least [DATE].
- A restructuring of [INCLUDE DESCRIPTION] resulting in a restructuring provision of LC XX million.
- A significant delay in our expected investments in XX and rollout of our product range YY.
- [Include additional factors based on entity specific circumstances]

These developments result in an operating/net loss of LC XX million and an operating cash outflow of LC XX million for the period. There has also been a reduction of our available funding of LC XX million.

Our bank covenants require a [XXX] ratio of [XXX]. The first measurement date is [XXX]. Based on the situation as per [DATE], the company would [not] meet the covenant ratios and our borrowings would become due upon demand.

As a result of these matters there is a material uncertainty that may cast significant doubt upon the group's ability to continue as a going concern and therefore whether the group will realise its assets and settle its liabilities in the ordinary course of business at the amounts recorded in the financial statements.

In response to these matters, the entity has taken the following actions:

- we have obtained from our lenders a waiver of the forecast breaches of our covenants;
- we have ceased production and closed stores in order to manage our available cash reserves;
- we have obtained additional facilities of LC XX million from our lenders; and
- we will not pay a final dividend for the 20[19] financial year and currently do not plan to pay dividends for the 20[20] financial year.

However, if production ceases for more than [x months] and stores are not reopened by [insert date] then it will be necessary to raise additional capital from investors or financing from lenders. We have started those discussions and we expect that this capital will be available if required.

Although it is not certain that these efforts will be successful, management has determined that the actions that it has taken are sufficient to mitigate the uncertainty and has therefore prepared the financial reporting on a going concern basis.



## 2. Going concern disclosure (continued)

**Scenario 2 (Impact of COVID-19 might be that significant uncertainty exists but not material uncertainty) and scenario 3 (COVID-19 is expected to have some impact, but this is not expected to be significant)**

In scenarios 2 and 3, information about the impact of COVID-19 on the entity and its ability to continue as a going concern will in many cases still be relevant information for the entity's stakeholders to assess the entity's financial position and prospects. If this is the case, such information should be provided.

Entities should typically disclose the information under a heading that is different from the heading that is generally used when a material uncertainty is identified (for example, 'implications of COVID-19 on our business' or in the liquidity risk section). Whichever heading and location the entity chooses to use, it is important that the information is prominent and easy to find. In scenario 2 or 3 entities can also choose to disclose the relevant information as part of an extended subsequent events disclosure.

Irrespective of the heading and location of the disclosure, the following content elements are expected:

*Introduction – description of the events, conditions, circumstances and developments resulting from COVID-19*

Highlight the circumstances that the entity is facing considering also the measures and plans issued by governments.

Disclose the consequences of the current situation, both operationally and financially (see general guidelines above for examples).

*Description of the measures taken to warrant going concern*

Describe the plans and measures (if any) that management has taken or will take to deal with the impact of the events/circumstances and uncertainties described above. Describe the current liquidity that the entity has available to fulfil its obligations and to finance its ongoing operations. This section therefore provides the basis for the management's conclusion that there is not a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

The disclosures in the financial statements might be similar to the example above in connection with scenario 1.



### 3. Subsequent events disclosure

As time passes, the impact of COVID-19 on an entity's business will change – for some, the impact might get worse and for others, restrictions might be eased. However, almost all entities will remain subject to some uncertainty for the foreseeable future. Entities need to consider which events after the reporting date might be adjusting events [MFRS 110 para 8].

Some events after the reporting date will be non-adjusting events [MFRS 110 para 21]. However, any events that impact the assessment of going concern at the reporting date are adjusting events for this purpose – including, in some situations, events that provide evidence that the going concern assumption is no longer appropriate [MFRS 110 para 14].

Non-adjusting events do not result in adjustment to the financial statements, but they do require disclosure if material. This disclosure should be transparent and specific to the entity, and it should include the nature of the event and an estimate of its financial effect – or a statement that such an estimate cannot be made, which should not be the default position. Entities should consider disclosing, for example, the impact of developments after the reporting date that affect the carrying amount of assets and liabilities (such as the need to impair assets or remeasure fair values), the impact of restructuring plans or new government reliefs or the impact of subsequent events on revenue, costs or borrowing covenants [MFRS 110 para 22].

These requirements apply to any financial statements that have not yet been issued.



### 3. Subsequent events disclosure (continued)

**Example (material impact)** – this should be tailored to an entity's circumstances, and it should also consider the requirements of any specific guidance issued by the relevant local regulator.

#### *Subsequent events*

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity and the group's business in various [material/significant] ways:

- A reduction in the supply of goods and materials [specify] from [regions] has affected our ability to continue the production of [product].
- Due to government measures taken, we had to close our factory/scale down our production as of [March 2020].
- The reduction of economic activity/requirement to close our stores/requirement for all of our employees to work from home has resulted in a significant reduction in sales/productivity. [Add and amend, based on entity-specific circumstances]

As a result of these effects our cumulative revenue in the first [x] months of 20[20] was approximately x% lower than our 20[19] revenues in the same period with the major negative impact identified in [months]. The group's operating results have declined significantly in 20[20] and have been negative in [months]. Also, our liquidity [headroom] has been negatively impacted, which required us to obtain additional funding from our banks [investors] using the current facilities of [LC XX]. We have also obtained new facilities of [LCXX] available to meet our future liquidity needs and subject to [covenants].

In the period since [31 December 2019] the group has incurred losses due to impairments recognised on outstanding receivables (LC XX million), write down of inventories (LC XX million) and fair value decreases of securities/derivatives/commodities (LC XX million). [If applicable, disclose impact on bank covenants]

On [DATE], the company has announced a restructuring for which a restructuring provision of LC XX million was recognised.

Governments in the countries in which we operate have also announced the implementation of government assistance measures which might mitigate some of the impact of the COVID-19 pandemic on our results and liquidity. To the extent appropriate we have applied for such government assistance in the countries in which we operate. The details of all of the arrangements that might be available to us and the period throughout which they will remain available are continuing to evolve and remain subject to uncertainty. We are continuing to assess the implications for our business when these arrangements are no longer available. In particular, the withdrawal of the assistance currently provided in [x] would adversely affect the performance of the [x] segment.

Depending on the duration of the COVID-19 crisis and continued negative impact on economic activity, the group might experience further negative results, and liquidity restraints and incur additional impairments on its assets in 20[20]. The exact impact on our activities in the remainder of 20[20] and thereafter cannot be predicted. We also refer to note [X] Going concern. [We expect that almost all entities for which COVID 19 has a material impact would also disclose the potential implications for liquidity and going concern].



### 3. Subsequent events disclosure (continued)

**Example (no or limited impact)** – this should be tailored to an entity’s circumstances, and it should also consider the requirements of any specific guidance issued by the relevant local regulator.

#### *Subsequent events*

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to our production process.

At this stage, the impact on our business and results has not been significant [and based on our experience to date we expect this to remain the case]/[the impact on our business and results has been positive. As we operate in [describe the sector/market] we have found increased demand for our products/our services and expect this to continue]. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

We also refer to note X. [Even if, at this moment, no uncertainty about the entity’s ability to continue as a going concern is identified, management should consider a paragraph about the impact of COVID-19 on liquidity]

**Do you need further information on this topic?**

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