Financial reporting in times of COVID-19

Many companies are currently faced with the challenge of accurately presenting the effects of COVID-19 in their interim financial reporting.

Management report and notes

The most significant events in the reporting period for the company and their effects on the statement of financial position, financial performance and cash flows need to be explained in particular in the interim management report prepared in accordance with GAS 16. Where there are risks jeopardizing the company's continued existence as a going concern, these must be mentioned as such and explicitly recorded. Material changes to opportunities and risks also need to be stated. Above all, material changes in the forecasts and other statements concerning the company's expected development compared with the last group management report must be reported.

Furthermore, the Q1/2020 reporting will necessitate an adjustment of the significant assumptions and estimates on which many accounting issues are based. This must be reported in the notes. Some companies now also need to decide whether their financial statements can still be prepared in accordance with the going concern principle. This discretionary estimate is currently subject to a particularly high level of uncertainty.

Specific issues in the statement of financial position

Questions now also arise about the presentation of a range of specific issues in the statement of financial position. We provide an overview of some of these below:

Impairment

Due to the economic repercussions of the COVID-19 pandemic, many companies are finding that a triggering event for goodwill impairment testing in accordance with IAS 36 already exists for their Q1 interim financial statements. Inventories do not fall within the scope of IAS 36, but may also be impaired. IAS 2 sets out that the net realizable value must be used for this. Please refer to our separate publication for more information about the effects on the expected credit loss (ECL) model for financial instruments.

Reimbursements from insurance undertakings
Companies experiencing interruptions or losses as a result of the COVID-19 pandemic may be entitled to insurance payouts. IAS 37 sets out that such entitlements may only be recognized as a separate asset when it is virtually certain that the reimbursement from the insurance undertaking will be received. The estimate is discretionary and must consider all relevant facts and circumstances. The general terms and conditions of insurance may exclude pandemics, for example.

Leases
The effects of COVID-19, such as closed businesses and restaurants, will have numerous implications for accounting for leases in accordance with IFRS 16. It may be necessary to recognize an impairment of a right-of-use asset, for instance. Equally, the suspension of lease payments could constitute a lease modification.

Government grants
Although government assistance such as subsidies for personnel expenses or the expansion of hospitals is required to be recognized in accordance with IAS 20, income tax relief normally falls within the scope of IAS 12. Likewise, short-time work compensation is not accounted for in accordance with IAS 20 but rather constitutes a transitory item for the entity.

(Deferred) income taxes
Alongside a multitude of other items, it is likely to be particularly necessary to assess the extent to which – in light of the fact that future profits may not be generated and given the current planning uncertainty – deferred tax assets are still recoverable and may need to be derecognized.

Our team of experts is happy to assist you in evaluating these challenges in your financial reporting!

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