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Tier 1 models and reporting considerations

Appendix 1

Financial reporting periods ending on or after 31 December 2021

Appendix 1 – Areas affected by climate change and COVID-19

This appendix gives an overview of all disclosure areas impacted by climate change and/or COVID-19. These impacts are also highlighted in the core model financial statements with icons.

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Important information about this document

This document is an extract from the complete *Tier 1 models and reporting considerations* publication. Links to cross references from this extract to other parts of the overall publication will not work.

Other extracts and the complete publication are available at www.deloitte.com/au/models.

Source	International GAAP Holdings Limited

Appendix 1—Areas of the model financial statements affected by climate change and COVID-19

Climate change

Risks and uncertainties arising from climate change could affect the following areas of the financial statements.

Section	Area	Commentary
3. Significant accounting policies	Going concern assessment	All entities are required to make an assessment of whether an entity is a going concern when preparing financial statements, considering all information available about the future. IAS 1 requires that the information should cover at least 12 months from the end of the reporting period but not be limited to that period. Management would consider information about the impacts of climate change as part of this assessment.
4. Critical accounting judgements and key sources of estimation uncertainty 16. Goodwill 17. Other intangible assets 18. Property, plant and equipment 21. Associates 22. Joint ventures	Impairment of non-financial assets	The uncertainties in relation to climate change may result in changes to management's cash flow projections or to the level of risk associated with achieving those cash flows, in which case they form part of a value-in-use or fair value assessment. An entity should consider the long-term impacts of climate change and consider disclosing climate-related assumptions as key assumptions.
3. Significant accounting policies 18. Property, plant and equipment	Useful lives of assets	Climate change-related factors may indicate that an asset could become physically unavailable or commercially obsolete earlier than previously expected. Furthermore, the expected timing of the replacement of existing assets may be accelerated. Such factors should be incorporated into a review of an asset's useful economic life or its residual value.
39. Provisions 55. Contingent liabilities	Provisions, contingencies and onerous contracts	The pace and severity of climate change, as well as accompanying government policy and regulatory measures, may affect the recognition, measurement and disclosure of provisions, contingencies and onerous contracts.
4. Critical accounting judgements and key sources of estimation uncertainty	Key judgements and estimates disclosures	If assumptions related to the impact of climate change have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, then disclosures about the nature of the assumptions should be provided.
4. Critical accounting judgements and key sources of estimation uncertainty	Information that is relevant to understanding the financial statements	If users of the financial statements could reasonably expect that climate change-related risks will have significant impact on the Company and this would qualitatively influence their decisions, then management should clearly disclose information about the climate change assumptions that they have made (if not disclosed elsewhere), including disclosures around the sensitivity of those assumptions. This is to enable users to understand the basis of forecasts on which the financial statements are prepared. This may mean that disclosure is provided even if the effects of climate change on the Company may only be experienced in the medium to longer term.

Source	International GAAP Holdings Limited	
Section	**Area**	**Commentary**
4. Critical accounting judgements and key sources of estimation uncertainty 24. Investments 27. Contract assets 29. Finance lease receivables 31. Trade and other receivables	Impairment of financial assets	Climate-related events, such as floods and hurricanes, can affect the creditworthiness of borrowers due to business interruption, impacts on economic strength, asset values and unemployment. In addition, borrowers' ability to pay debts might be diminished if they are in industries that have fallen out of favour and are therefore depressed. The impact on receivables in entities operating in non-financial industries is likely to be less severe because the economic conditions are less likely to change during the collection period of the debtors. However, where a significant climate-related event has occurred, the effect of this event on trade receivables at balance sheet date should be assessed.
18. Property, plant and equipment 19. Investment property 62. Financial Instruments	Assets measured on a fair value basis	Climate change risk may affect the measurement of fair value in respect of assets measured at fair value or tested for impairment on a fair value less costs of disposal basis.
58. Retirement benefit plans	Impact on pension risks from climate	Pension trustees are required to consider all material financial risks, including the exposure of pension assets to climate change risk. Demographic assumptions and investment performance can vary significantly under different climate change scenarios, affecting the measurement of pension asset and liability balances at the balance sheet date.
35. Deferred tax	Recoverability of deferred tax assets	Assumptions underlying the forecast of future taxable profits that supports the recoverability of deferred tax assets should be consistent with assumptions underlying other profit forecasts used in the preparation of the financial statements or disclosed in the narrative reports.
4. Critical accounting judgements and key sources of estimation uncertainty 12. Income Tax 39. Provisions 55. Contingent liabilities	New levies or taxes	New levies or taxes may be introduced to encourage decarbonisation. Any levy liabilities should be recognised as the obligation is triggered under law (per IFRIC 21) and any income tax effects should be incorporated into normal IAS 12 accounting. Care should be taken when distinguishing between a levy and income tax and the application of IFRIC 21 or IAS 12 as this has proven to be a challenging area as new taxes/levies have been introduced in the past.
17. Other intangible assets	Carbon trading schemes	There are currently different acceptable approaches to account for carbon trading schemes. The accounting policy applied by the entity should be disclosed if this is relevant for users to understand the financial statements.
57. Share-based payments	Incentive schemes	Entities may introduce incentive schemes to incentivise management to decarbonise. Such schemes may either fall in the scope of IAS 19 or IFRS 2 depending on the nature of the awards. Decarbonisation targets should be treated as any other uncertainties or actuarial assumptions for IAS 19 benefits and should be treated as performance conditions for share-based payments under IFRS 2.

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COVID-19

Financial statement disclosures will need to convey the material effects of the COVID-19 pandemic. Entities must carefully consider their unique circumstances and risk exposures when analysing how the ongoing effect of the COVID-19 pandemic may affect their financial statements. The significance of the individual issues discussed will vary by geography, by industry and, by entity. The areas mentioned below are discussed further in our *IFRS in Focus* 'Accounting considerations related to the Coronavirus 2019 Disease'.

Section	Area	Commentary
• Consolidated statement of profit or loss • Consolidated statement of profit or loss and other comprehensive income	Statement of profit or loss	Caution should be used when excluding COVID-19-related items from operating profit. Many impacts of COVID-19 are part of the entity's normal activities and therefore part of the underlying business performance. They should therefore not be excluded from 'underlying' results in the statement of profit or loss and other comprehensive income.
• Consolidated statement of profit or loss • Consolidated statement of profit or loss and other comprehensive income	Alternative performance measures (APMs)	• The introduction of new APMs or the adjustment of existing APMs should be carefully evaluated • Caution should be used when excluding COVID-19-related items from operating profit. Many impacts of COVID-19 are part of the entity's normal activities and therefore part of the underlying business performance. They should therefore not be excluded from 'underlying' results in the statement of profit or loss and other comprehensive income • It is also important to consider local regulators' guidance on APMs as it might contain explicit restrictions on COVID-19-related items
3. Significant accounting policies	Going concern	Material uncertainties that cast a significant doubt on the entity's ability to continue as a going concern may arise from COVID-19-related events. IAS 1 requires that an entity discloses those material uncertainties in the financial statements.
4. Critical accounting judgements and key sources of estimation uncertainty	Material judgements and estimates	Entities should provide as much context as possible as to how COVID-19 affects the assumptions and predictions they have used when estimating amounts recognised in the financial statements.
4. Critical accounting judgements and key sources of estimation uncertainty 16. Goodwill 17. Other intangible assets 18. Property, plant and equipment 21. Associates 22. Joint ventures 25. Inventories 27. Contract assets 28. Contract costs	Impairment of non-financial assets • Assets subject to the requirements of IAS 36 • Valuation of inventories • Costs to obtain or fulfil a revenue contract and up-front payments to customers	• Entities will need to assess whether any impairment triggers have arisen from the ongoing impact of COVID-19 for assets that are covered by IAS 36. For assets other than goodwill which have been impaired in a prior period, entities will need to assess whether there has been a change in the estimates used to determine the recoverable amount of the assets since the last impairment loss was recognised which could lead to a reversal of impairment. The recoverable amount of assets will also likely be affected given the estimation uncertainty associated with COVID-19 • Entities will need to consider the ongoing impact of the COVID-19 pandemic on the recoverability of inventory balances

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	Section	**Area**	**Commentary**
	3. Significant accounting policies 4. Critical accounting judgements and key sources of estimation uncertainty 18. Property, plant and equipment 19. Investment property	Non-financial assets measured on a fair value basis	The COVID-19 pandemic may continue to affect fair value measurements. The fair value should reflect market participant views and market data at the measurement date under current market conditions.
	3. Significant accounting policies 4. Critical accounting judgements and key sources of estimation uncertainty 24. Investments 27. Contract assets 29. Finance lease receivables 31. Trade and other receivables 32. Borrowings 62. Financial Instruments	Financial Instruments • Allowance for expected credit losses (ECL) • Fair value measurements • Liquidity risk management • Classification of financial assets • Debt modifications • Changes in estimated cash flows • Hedge accounting • Financial vs non-financial assets and liabilities	• The COVID-19 pandemic may continue to affect fair value measurements. The fair value should reflect market participant views and market data at the measurement date under current market conditions • COVID-19 can continue to affect the ability of debtors to meet their obligations under trade receivables and loan relationships • Disruptions in production and reduced sales can have on-going implications on an entity's working capital and could lead to a breach of a debt covenant resulting in a liability becoming current • For classification of financial assets, an increase in frequency and value of sales of financial assets may result in the need to consider whether there has been a change in the entity's business model or whether a new business model has been initiated • Modifications of financial assets and liabilities may be more common due to the COVID-19 pandemic and can have an accounting impact. When a transaction has been designated as the hedged item in a cash flow hedge relationship the entity will need to consider whether the transaction is still a "highly probable forecasted transaction" • The significant disruption to supply and demand may result in net cash settlement of contracts to buy or sell commodities or other non-financial assets, which will bring those contracts in scope of IFRS 9 and may result in classification of the contracts as financial assets or liabilities • With regard to contract assets, COVID-19 may require an entity to update its amortisation approach to reflect any significant changes in the expected timing of the transfer of the related goods or services. It could also give rise to impairment loss on those items

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Section	Area	Commentary
3. Significant accounting policies 4. Critical accounting judgements and key sources of estimation uncertainty 5. Revenue 27. Contract assets 28. Contract costs 60. Contract liabilities	Revenue from contracts with customers • Contract enforceability • Collectability • Contract modification • Variable consideration • Material right • Significant financing component • Implied performance obligations • Recognition of revenue	Entities should carefully assess whether their revenue recognition policies are affected by situations that are associated with the COVID-19 pandemic.
13. Discontinued operations 39. Provisions	Restructuring plans	• In a difficult economic environment and facing difficulties in obtaining financing, an entity may be considering or implementing restructuring plans such as the sale or closure of part of its businesses or the downsizing (temporarily or permanently) of operations • If an entity disposes of or classifies as held for sale a component that meets the definition of a discontinued operation, the presentation and disclosure requirements of IFRS 5 apply • Entities may reduce their workforce through temporary employee layoffs or may be forced to consider subsequent restructuring actions as information becomes available on the long-term effects of the pandemic on an entity's operations
39. Provisions	Onerous contracts provisions	Because of the continuing impacts of COVID-19, unavoidable costs of meeting the obligations under a contract may exceed the benefits expected to be received, resulting in an onerous contract.
4. Critical accounting judgements and key sources of estimation uncertainty	Insurance recoveries	Entities that incur losses stemming from the COVID-19 pandemic may be entitled to insurance recoveries.
3. Significant accounting policies 4. Critical accounting judgements and key sources of estimation uncertainty 30. Leases (Group as a lessee) 36. Lease liabilities	• Lease contracts • Impairments	Impairments to right-of use (ROU) assets could occur as a result of business closures, supply chain disruption, or other consequences of the pandemic that negatively affect the future cash flows expected to be derived from the use of the underlying asset.

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	Section	**Area**	**Commentary**
	2. Adoption of new and revised Standards 3. Significant accounting policies 4. Critical accounting judgements and key sources of estimation uncertainty 30. Leases (Group as a lessee) 36. Lease liabilities	Amendment to IFRS 16 Covid-19-Related Rent Concessions and Covid-19-Related Rent Concessions beyond 30 June 2021	With regard to rent concessions, the Board published amendments to IFRS 16 adding a practical expedient which allows a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. Entities applying the amendments are required to state that fact and whether or not they have used the expedient.
	3. Significant accounting policies 4. Critical accounting judgements and key sources of estimation uncertainty 20. Subsidiaries 21. Associates 22. Joint ventures	Consolidation	The continuing impacts of the COVID-19 pandemic may give rise to specific transactions or events that could change a reporting entity's governance rights over other legal entities and thereby affect accounting conclusions for consolidation.
	13. Discontinued operations 52. Disposal of subsidiary 53. Acquisition of subsidiaries	Acquisitions and disposals • Business combinations • Disposals	In the current circumstances, entities may seek to dispose of certain assets or group of assets as a means to raise funds. In those cases IFRS 5 may apply.
	58. Retirement benefit plans	Defined benefit plans	The significant economic uncertainty associated with the COVID-19 pandemic may continue to affect specific assumptions in the measurement of defined benefit obligations and plan assets.
	57. Share-based payments	Share-based payments	• Some businesses may cease operations or operate at reduced capacity as a result of the impacts of COVID-19, which could affect the probability that vesting conditions for share-based payments with performance conditions will be met • In addition, entities may decide to modify the terms or conditions of an equity-settled award, for example a change in the fair value-based measure, vesting conditions, or classification of the award
	3. Significant accounting policies 7. Profit for the year 59. Deferred income - government grant	Government assistance	In response to the COVID-19 pandemic, governments in many jurisdictions implemented legislation to help entities that are experiencing financial difficulty stemming from the pandemic. An entity should carefully assess whether the benefit received is a government grant or government assistance as this affects the accounting for or disclosure for the benefit.

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	Section	**Area**	**Commentary**
	4. Critical accounting judgements and key sources of estimation uncertainty 12. Income Tax	Income tax	• Entities should consider how profitability, liquidity and impairment concerns that could result from the on-going impact of COVID-19 might affect their income tax accounting under IAS 12 • For deferred tax assets, when assessing whether sufficient probable future taxable profits will be available against which a deductible temporary difference can be utilised, entities should ensure the reasonableness of their business plan and its impact on future taxable profits and the consistency of assumptions compared to projections used in other financial statements estimates for elements that should be comparable (e.g. goodwill impairment)
	3. Significant accounting policies 32. Borrowings 62. Financial Instruments	Breach of covenants	Economic downturn may increase the risk that entities breach financial covenants. This can affect the classification of a liability as current or non-current. In addition, the impending liquidity shortfall might affect an entity's ability to continue as a going concern.
	3. Significant accounting policies 54. Notes to the cash flow statement	Cash and cash equivalents	Entities may need to consider whether investments classified as cash equivalents continue to meet the requirement for such a classification as previously highly liquid investments might no longer meet that condition. Also, for an investment to qualify as a cash equivalent its value must not change significantly, which might no longer be the case given the uncertainties associated with the pandemic.
	3. Significant accounting policies 32. Borrowings	Capitalisation of borrowing costs	If the entity suspends activities related to the construction or production of a qualifying asset for an extended period, capitalisation of borrowing costs should also cease until such time as activities are resumed.
	3. Significant accounting policies	Exchange rates	For practical reasons, it is common for entities that engage in a large number of foreign currency transactions to use a monthly or quarterly rate of exchange to measure those transactions in their accounting records and to disregard day-to-day fluctuations in exchange rates. Entities will need to evaluate if foreign currency transactions should be analysed into shorter periods (e.g. quarterly periods, months or weeks) with an average rate determined for each, or even a date-specific exchange rate.
	63. Events after the reporting period	Events after the end of the reporting period	It may be challenging for an entity to determine if an event after the end of the reporting period is adjusting or non-adjusting in a global marketplace that is extremely volatile and in which major developments occur daily.