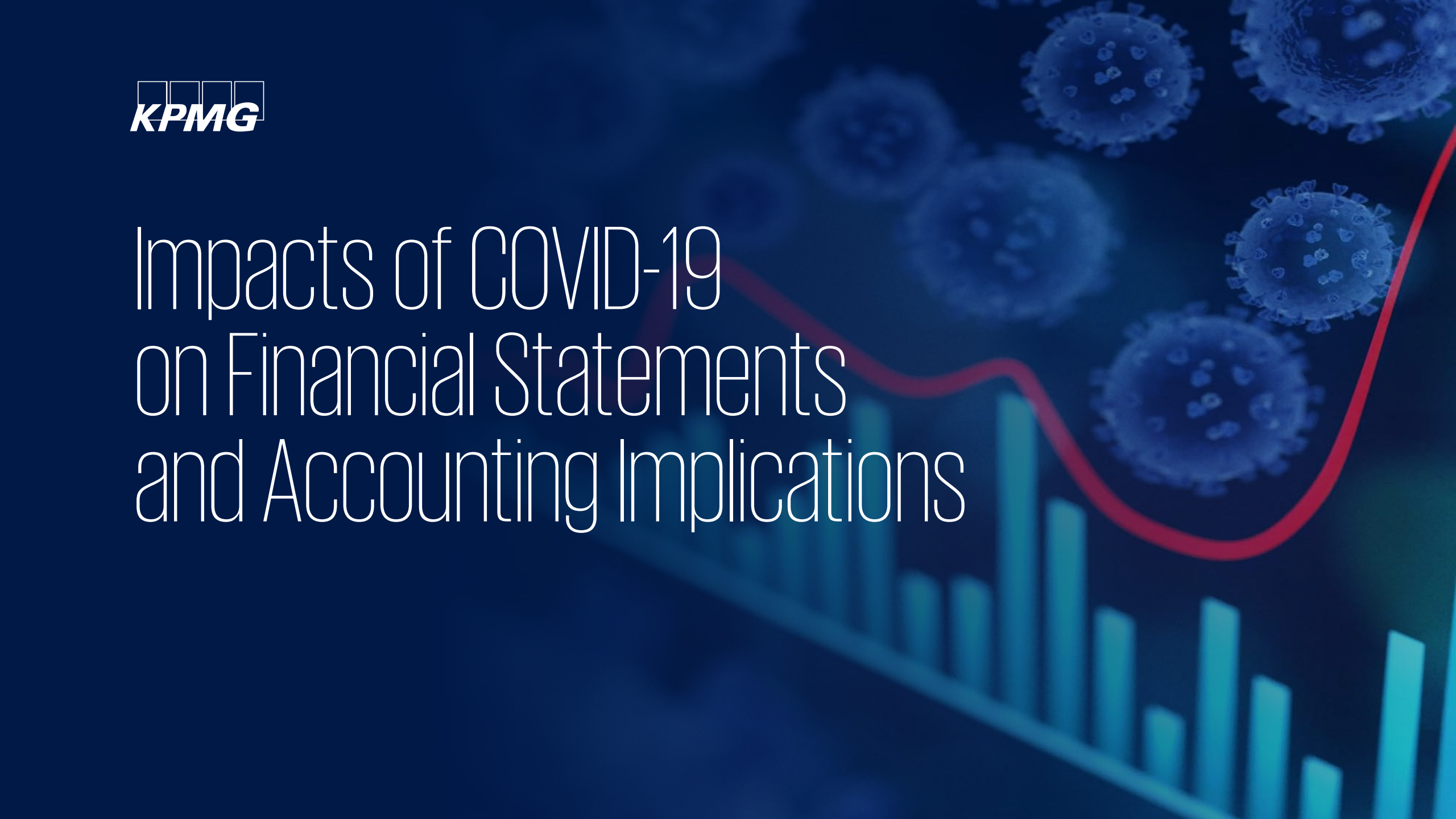




# Impacts of COVID-19 on Financial Statements and Accounting Implications



# Content

- Overview
- Accounting and financial reporting impacts
- Actions for management to take

# Overview



# COVID-19 timeline in Myanmar (2<sup>nd</sup> wave)

20 Sep 20, with increasing infections in Yangon, MoHS announced full lockdown for Yangon region effective within 24 hours which private businesses and organisations commence work from home with exception to a few essential industries.

Companies should evaluate whether events occurring after the reporting date require disclosure or possibly recognition.

## Under MAS 10,

- **Non-adjusting events:** events that are a result of conditions that arose after the reporting date.
- **Adjusting events:** events provide evidence of conditions that existed at the reporting date

30 Sep 20

FS  
YE'19/20

Event after reporting period

30 Sep 20  
Reporting date

Dec 20  
Issuing FS YE'19/20

# Business risks

Customer  
demand

Supply chain

Products and  
services

People

Market

Laws and  
regulations

# How is financial reporting expected to be impacted?

The financial reporting impacts will depend on facts and circumstances, including the degree to which an entity's operations are exposed to the impacts of COVID 19.

Given recent developments, we believe that the majority of entities have now, in some way or other, been impacted by the effect of Covid-19. That impact is expected to be negative in the majority of cases.

Particular areas expected to be impacted are:

- Management's assessment of the entity's ability to continue as a going concern;
- The potential need for additional disclosures, including subsequent events, in the financial statements and other information, as well as principle risks and uncertainties;
- Accounts and disclosures (e.g. fair value assessments, impairments, asset valuations, expected credit losses, inventory obsolescence, recovery of deferred tax assets, debt covenants, etc); and
- Changes to internal control over financial reporting may be affected.

# Accounting and financial reporting impacts

Revenue

Expected credit  
loss (ECL)  
assessment

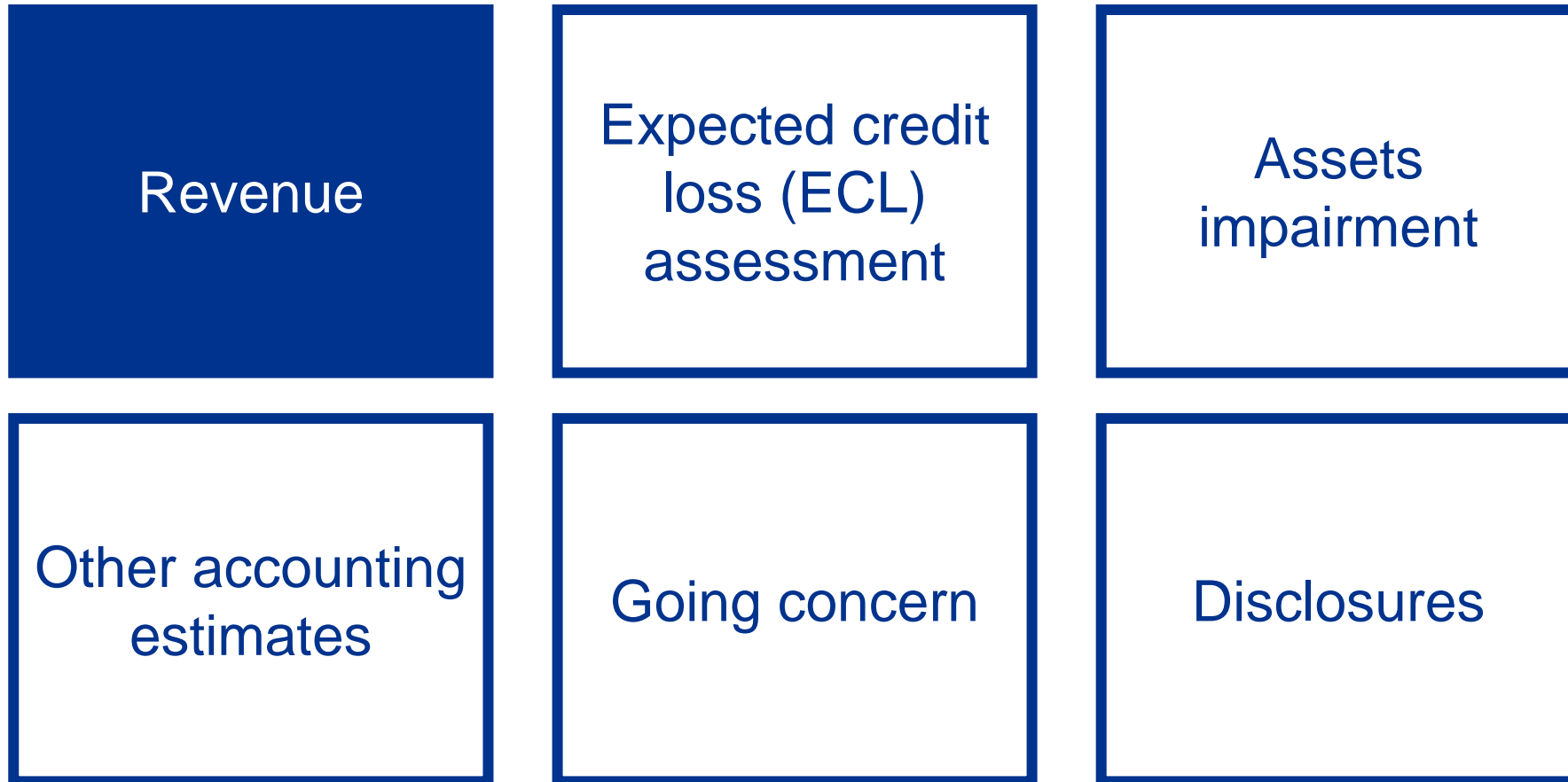
Assets  
impairment

Other accounting  
estimates

Going concern

Disclosures

# Accounting and financial reporting impacts





# Contract enforceability

## Key points



### Contract existence

- New contracts:
  - consider carefully if they have passed the contract existence test.
- Existing contracts:
  - need to reassess whether the contract existence criteria continue to be met – i.e. if there is a significant change in facts and circumstances;
  - stop recognising revenue for that contract if those criteria are no longer met.

# Contract enforceability

## Key points



### Revenue recognition over time

- For companies which recognise revenue over time:
  - consider whether the right to payment continues to be enforceable in current conditions;
  - if the right to payment is no longer enforceable, and the other over-time criteria are not met, then recognise revenue at a point in time.

### Contract modifications

- A change in the scope or price of a contract, or both.
- Account for contract modifications when they are approved and when they create or change the enforceable rights and obligations of the parties to the contract.
- Accounting can be complex.

# Revenue estimates

## Key points



### Variable considerations

- Companies should consider:
  - if actions taken to respond to COVID-19 result in variable consideration – e.g. incentives or concessions offered to customers;
  - if they cannot satisfy their obligations, the resulting penalties would reduce the transaction price;
  - their estimate of the amount of constrained revenue, which may be significantly impacted by COVID-19 – e.g. expectations around rebates, volume discounts, compensation payable to customers etc.

# Revenue estimates

## Key points



### **Stand-alone selling price**

- Companies need to ensure that they use up-to-date estimates to allocate the transaction price for new contracts, as there may be changes in market prices or the expected costs caused by COVID-19.
- After contract inception, companies should not reallocate the transaction price to reflect subsequent changes in stand-alone selling prices.

### **Over-time revenue recognition**

- COVID-19 may significantly impact project timelines or expected costs to complete.
- Companies need to ensure that the measure of progress reflects the latest expectations.

# Accounting and financial reporting impacts

Revenue

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# Expected credit loss

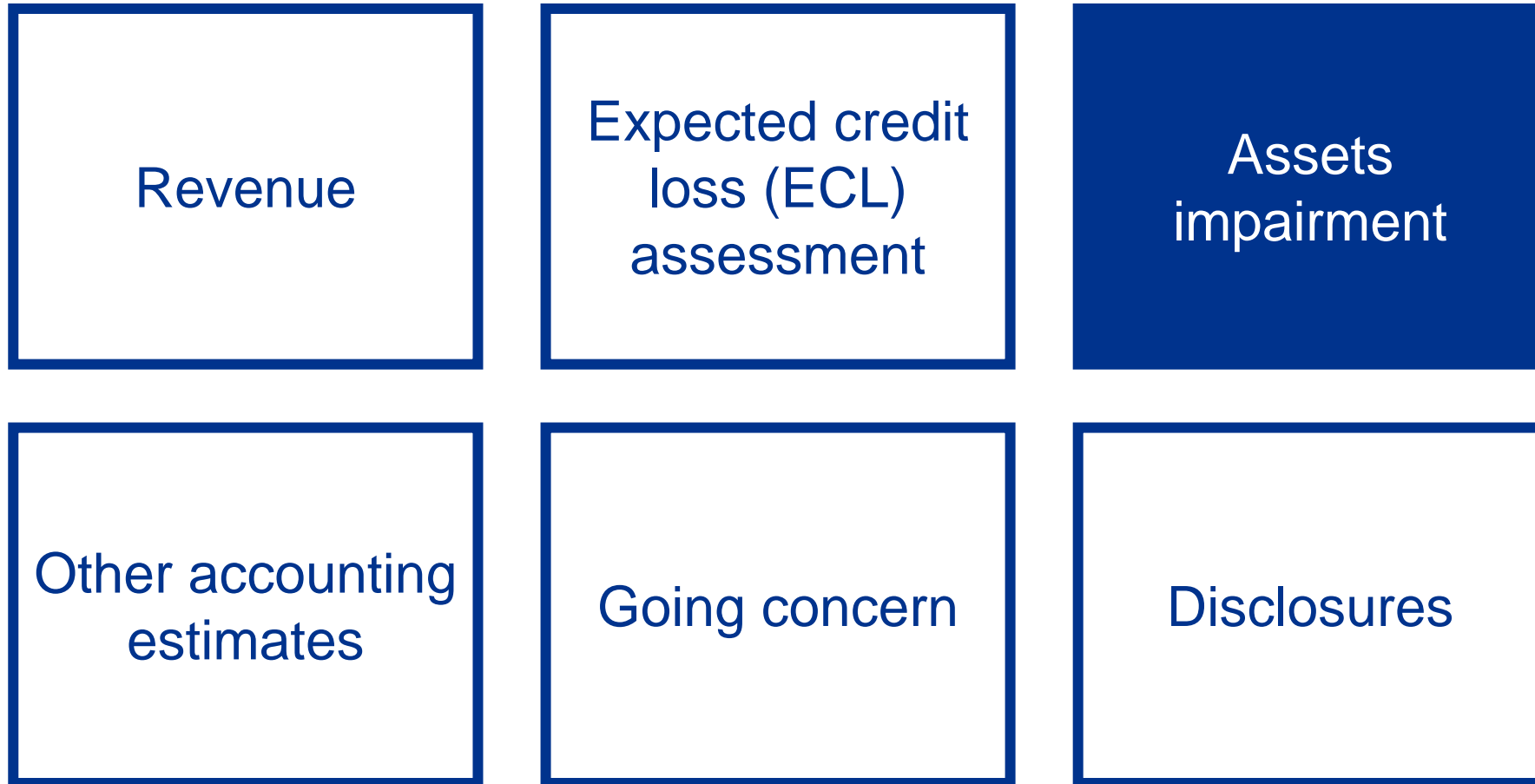
## Key points



Companies should consider:

- The increased uncertainty about potential future economic scenarios and their impact on credit losses.
- Certain types of customers, industries or regions may be particularly severely affected by the economic effects of COVID-19.

# Accounting and financial reporting impacts



# COVID-19 and impairment of non-financial assets

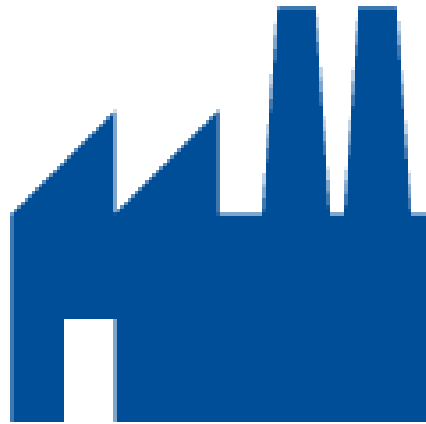
*Which industry impact most?*





# COVID-19 and impairment of non-financial assets

Think about...



**Manufacturing  
business**

## Indicators:

- Unable to procure raw material for finished goods due to disruption of supply chain
- Workforce limitation that impede ability to goods manufacture
- Issue with goods flows such as travel restriction or border closing
- Shut down plant or office



## Impact:

Machinery, factory, a whole business, etc.

# COVID-19 and impairment of non-financial assets

Think about...



**Real estate/ Retail/  
Entertainment  
business**

## Indicators:

- Avoidance of event and mass gathering such as market, fair, event, concert, etc.
- Store closure
- Reduction of lessee's lease payment due to lower customer spending and sentiment
- Government policy result in an event cancellation such as concert or sporting events.

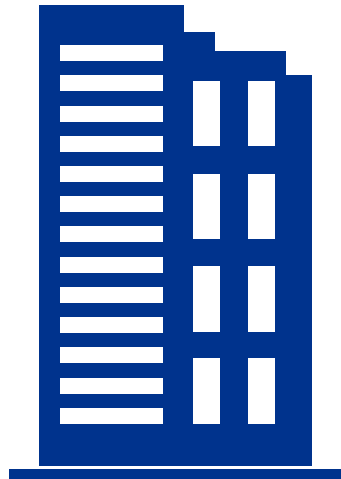


## Impact:

Space for rent (IP/ROU assets – measure at cost)

# COVID-19 and impairment of non-financial assets

Think about...



**Hotel business**

**Indicators:**

- Increase in room vacancy rate as a result of tourism business down turn



**Impact:**

A hotel business, etc.

# COVID-19 and impairment of non-financial assets

Think about...



## Indicators:

- Indicators:
- Cancellation of air ticket or cargo shipment
- Border closing

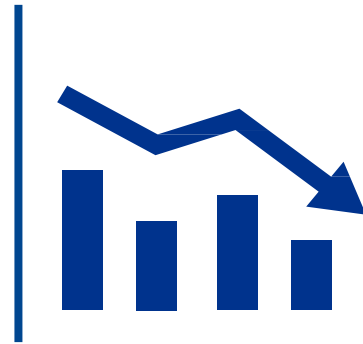


## Impact:

Airplane, ship, a whole business, etc.

# COVID-19 and impairment of non-financial assets

Think about...



**A business invested  
in risk countries**

## Indicators:

- Operation shut down



## Impact:

Investment in subsidiary,  
associates, JV

# Impairment testing steps

- 1 Identify the level at which assets are tested for impairment
- 2 Determine when to test for impairment
- 3 Determine recoverable amount
- 4 Determine the carrying amount
- 5 Recognition of impairment loss

# Example indicators of impairment

Consider triggers from COVID-19 !

Observable indication of significant decline in asset value

Technological, market, legal environment

Market cap < Book values

Increased interest rates

External sources

Change in use of asset

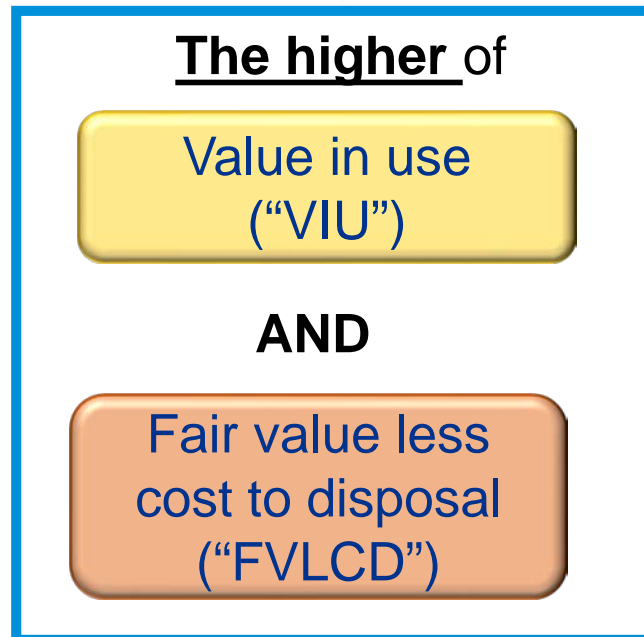
Obsolescence or physical damage

Planned disposal / restructuring

Performance of assets declining

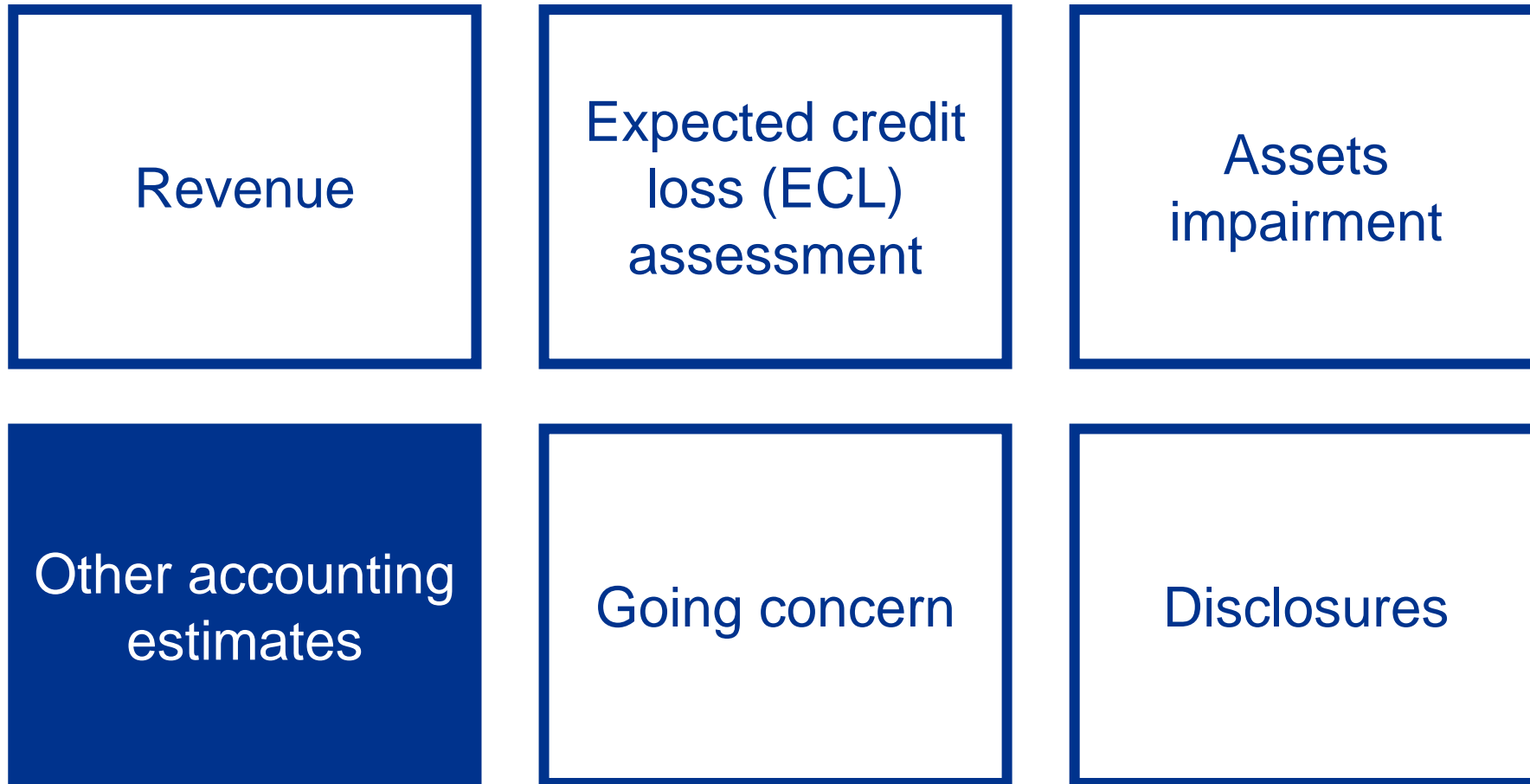
Internal sources

# Impairment loss





# Accounting and financial reporting impacts



# Other accounting estimates

- Key assumptions and sensitivities should be reevaluated as necessary to reflect current economic conditions and uncertainties.
- The following areas should be reconsidered;
  - Fair value of investment property
  - **NRV of inventories**
  - Recoverability of deferred tax assets
  - Remaining useful life and residual value of PPE, intangible assets and ROU assets
  - Provision for liabilities such as onerous contracts under MAS 37
  - **Employee benefit**

# Recoverability of revenue cycle assets

## Issue



Assets recognised in the revenue cycle are subject to specific impairment tests, which are different to MAS 36.

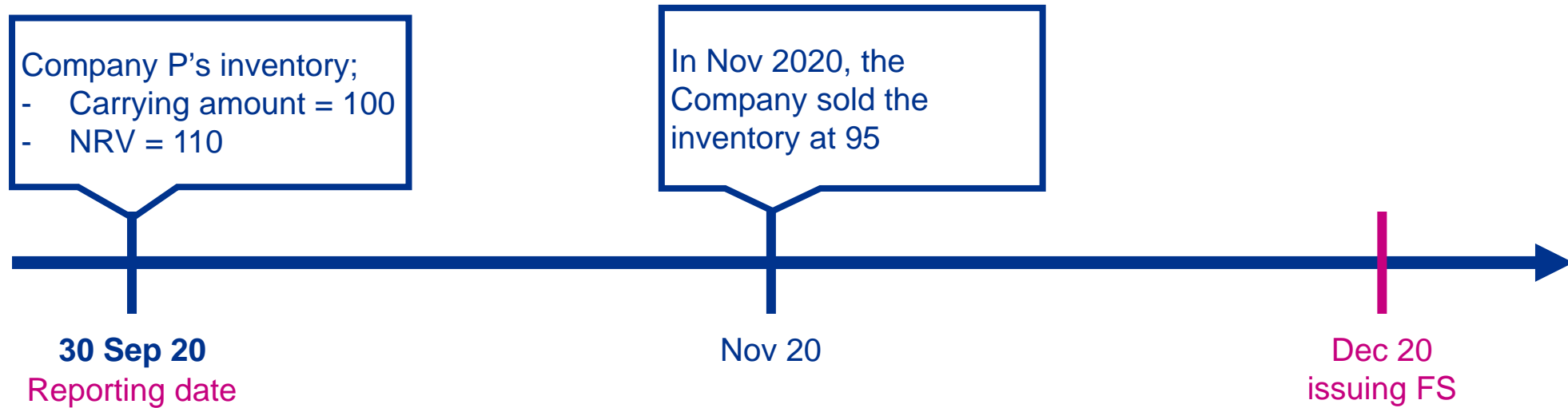
## Key points



### Inventory

- Generally measured at lower of cost and net realisable value.
- Net realisable value is the estimated selling price less costs to complete and selling costs.
- Current conditions may reduce estimated selling prices, extend the time period to sale, and/or change the company's intention regarding the asset.

# Other accounting estimates: NRV




**Question:** What is outstanding balance of Company P's inventory as at 30 September 2020?

- A) 100
- B) 95
- C) It depends

# MAS 2

- 30 Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

# COVID-19 impact on employee benefits

ISSUE	IMPACT	ACTION	REF.
 <p>Offering of new paid absence entitlement by the Company</p> <ul style="list-style-type: none"><li>More paid absence were used during lockdowns or quarantine</li></ul>	<p>Recognition of:</p> <ul style="list-style-type: none"><li>Short-term employee benefit <i>or</i></li><li>Other long-term employee benefit</li></ul> <p>(Classification is depend on whether the paid absence is expected to be settled within 12 months)</p>	<ul style="list-style-type: none"><li>Consider the appropriate accounting for new employee benefit arrangement</li><li>Update estimate of the timing and likelihood of employee using these entitlement</li></ul>	<ul style="list-style-type: none"><li>KPMG insight 2019-2020 4.4.1250-1260</li><li>MAS19.11-18</li></ul>

# COVID-19 impact on employee benefits

## ISSUE



Reduction in size of operation and number of employee (e.g. Lay-off)

## IMPACT

Recognition of termination benefit:  
Recognize at the earlier of:

- When the entity recognises costs for a restructuring within the scope of MAS 37 that includes the payment of termination benefits\*;  
and
- When the entity can no longer withdraw the offer of those benefits

\* (1) There is a detail formal plan with sufficient detail of the restructuring (2) Create valid expectation in those affected by the plan

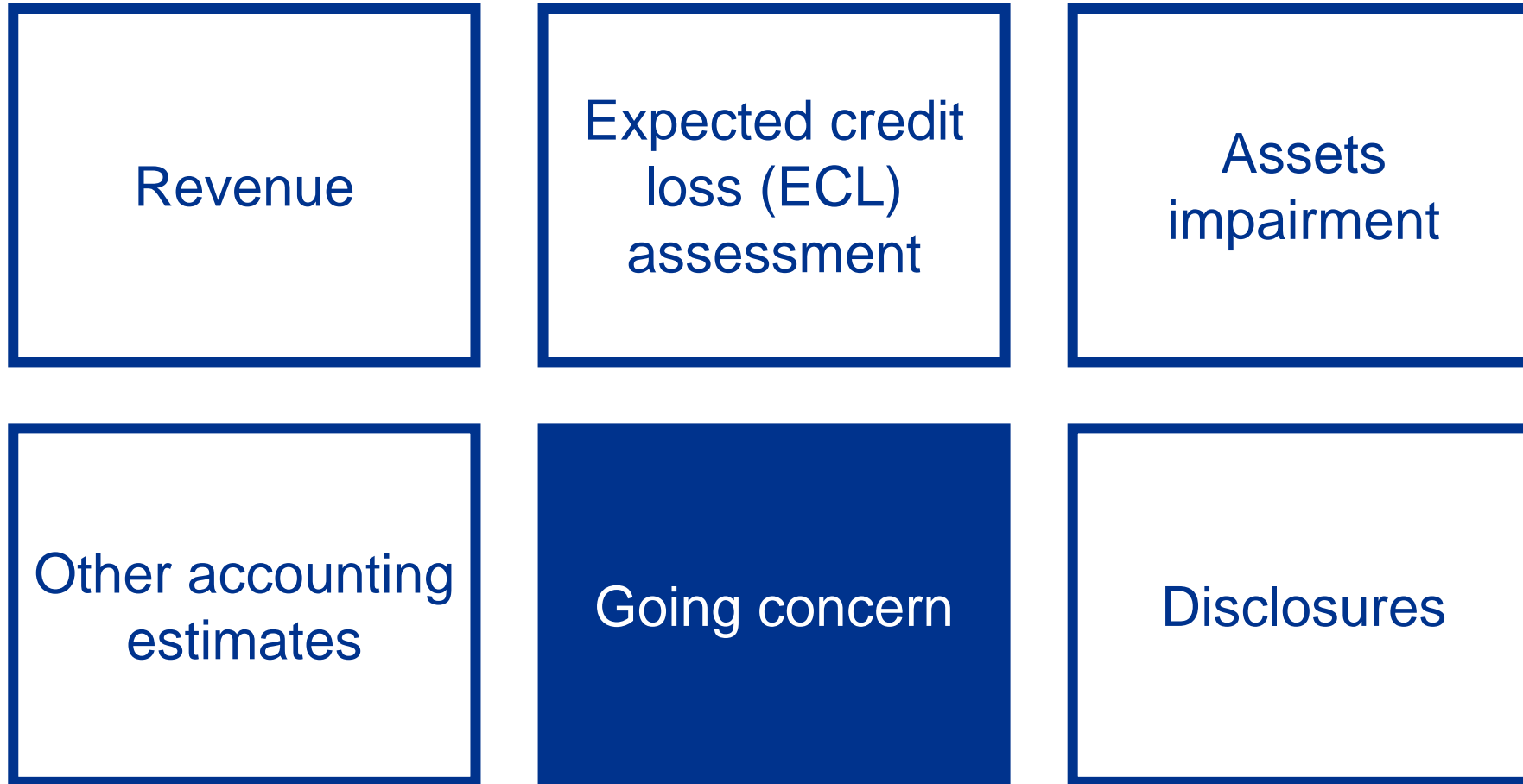
## ACTION

Assess when to recognize termination benefit

## REF.

- KPMG insight 2019-2020 3.12.230, 4.4.1450-1460
- MAS19,159-168
- MAS37.70-79

# Accounting and financial reporting impacts





# Considering events after the reporting date

Example of events after the reporting date that management consider when assess the entity's ability to continue as a going concern

## Weaker economic outlook & increased uncertainty

- Lower sales / earning;
- Decline in working capital ratios;
- Significantly impacting operating cash flows.

## Declines in assets prices

- Lower earning and equity; which may impact compliance with financial covenants;
- Reduced proceeds in the event of asset disposals.

## Availability and cost of credit

- More difficult to access bond markets and find lenders to renew or increase borrowing facilities;
- Lenders may demand new terms, such as significantly higher yields or improved collateral;
- Lenders have liquidity issues and may need bank assistance;
- Borrowers with foreign currency denominated in debt may find debt costs increase significantly due to the depreciation of their local currency;
- Adverse material change clauses in loan agreements may provide lender with an opportunity to withdraw financing.

# Accounting and financial reporting impacts

Revenue

Expected credit  
loss (ECL)  
assessment

Assets  
impairment

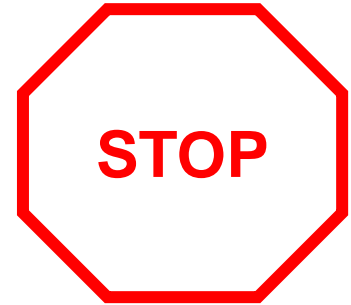
Other accounting  
estimates

Going concern

**Disclosures**

# Disclosure impact from COVID-19

- **For Yearend Period** (i.e. 30 September 2020)
  - **No** impairment indicator *or* going concern issue at period end
  - **Significant** impact occur during subsequent period



Yes

**Disclose subsequent events**

If the entity has any impairment indicator *or* going concerns issue, please consult with your auditor.



# What disclosures should be given in respect of post balance sheet events, including those related to COVID 19 ?

Examples of the events or conditions that may be material non-adjustable subsequent events and warrant disclosure in the financial statements could include:

- Significant business interruption arising from supply chain disruption, closure of manufacturing or commercial facilities, travel restrictions and logistics disruption, unavailability of personnel etc.
- Significant declines in sales, earnings and / or operating cash flows;
- Losses in contracted business or losses / exposures arising from counterparties asserting force-majeure;
- Debt restructuring or entering into significant commitments including new loan facilities;
- Breach of a significant loan covenant or a debt default after the reporting date;
- Abnormally large changes in asset prices;
- Abnormally large changes in equity or debt securities prices, foreign exchange rates or interest rates after the reporting date that will significantly impact the measurement of assets and liabilities in future periods; and
- Restructuring and redundancy plans.

# Actions for management to take

- Assess the company's ability to continue as a going concern.
- Consider whether information disclosed in the last annual financial statements remains relevant. If not, then provide updated disclosures.
- Assess and reflect the impacts of the COVID-19 outbreak in the financial statements – in particular, whether uncertainties are factored into all the necessary estimates and judgements.
- Assess whether the disclosures and explanations provided in the financial statements are sufficient for users to understand the significant events and transactions that have occurred since the annual reporting date.
- Provide additional disclosures to enable users of financial statements to understand the overall impact of the COVID-19 outbreak on the financial position and performance of the company.
- **Communicate with your AUDITOR!**

# Keep you informed

## Covid-19

### Your financial reporting resource



The events and conditions surrounding the Covid-19 pandemic are creating levels of uncertainty and risk that companies may not have encountered before.

To help you better understand the potentially significant accounting and disclosure implications for your company, and the actions management can take now, we've set up a [Covid-19 financial reporting resource centre](#).

This portal delivers regularly updated information on the rapidly changing situation and focuses on the financial reporting impacts for 2020 period ends.



# Thank you

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